Municipal Finance Authority of British Columbia

ESTABLISHED 1970

mfa-bc

ANNUAL REPORT 2006

Artist's rendering of Canada Line crossing the North Arm of the Fraser River in Vancouver
Drawing credit: CLCO

Municipal Finance Authority of British Columbia | Municipal Finance Authority of British Columbia | Municipal Finance Authority of British Columbia |

A proven track record of financial success

Our excellent credit rating proves that the Municipal Finance Authority of British Columbia (MFABC) is a success. What does our credit rating mean to our clients and the people of British Columbia? It allows us to borrow money at interest rates lower than the chartered banks offer and pass these savings on to our local government clients. As a result, local governments across the province can do more to serve their communities. The credit for earning and maintaining our high rating rests squarely on the shoulders of a group of immensely dedicated people—local governments in BC, our Board of Trustees, and our staff.

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VANCOUVER ISLAND CONFERENCE CENTRE (VICC), OPENING IN SPRING 2008. CITY OF NANAIMO BORROWED $30 MILLION THROUGH THE MFA CAPITAL FINANCING PROGRAM.

ILLUSTRATION COURTESY OF THE CITY OF NANAIMO

2007-01730/

Message from the Chair

FRANK LEONARD, CHAIR
MUNICIPAL FINANCE AUTHORITY
OF BRITISH COLUMBIA

It is my pleasure to present the 36th Annual Report of the Municipal Finance Authority of BC. The year saw the Authority issue its largest debenture ever, record activity in its Pooled Investment Funds, and rate reductions in the Interim Financing Program. Two debenture issues, Spring and Fall, and one Community Bond raised financing for our clients.

SOUND FINANCIAL POSITION

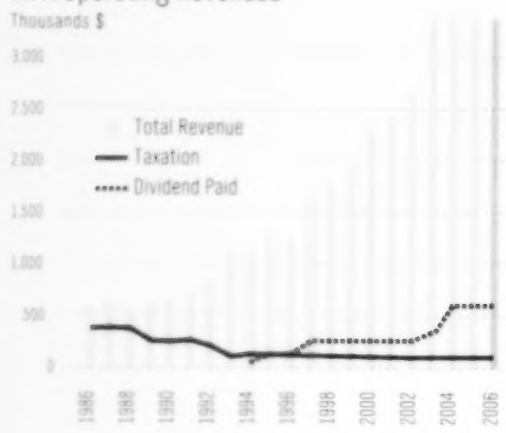
The cooperative approach once again benefited all of BC's local governments since the interest rates available to the Authority on its debenture issues were lower than those available to all other municipal borrowers in Canada. Investors who bought the Authority's two debentures were rewarding BC's local governments for their liquid size borrowings, sound fiscal management and strong financial position since "Reserves and Surpluses" exceed "Net Debt" by a factor of 1.46.

DEBENTURE ISSUES

The Spring saw the Authority issue a $250 million 10-year Bullet Bond with an interest rate of 4.65%. Bullet Bonds pay a fixed rate of interest for the 10-year term and in 2016 the borrowers in this debenture can choose to be refinanced or pay off their remaining debt outstanding. The bylaw terms for borrowing ranged from 5 to 30 years.

Also in the Spring, the Village of Salmo decided to raise $175,000 within its own community. This type of borrowing is known as a Community Bond and attempts to achieve a lower interest rate than those available from typical debenture issues. The Village was successful in this regard and achieved a fixed rate loan for 5 years at 4.00%. The Community Bond program is backed by the Authority's credit rating and is an option available to all BC local governments.

MFA Operating Revenues



Sinking Fund Yields - 2006

(Actuarial target = 4.00%)

Debt Fund	**4.95%**
Utilities	**5.63%**
TransLink	**5.10%**
Regional Hospital Districts	**5.57%**
Bondholder Protection:	
Debt Reserve Fund	**4.14%**

The Debt Reserve Fund is the first level of bondholder protection against a non-collection from an MFA client on its debt service payments. These investments are purposely kept of short duration. In 36 years, the Debt Reserve Fund has never been used.

Investment Pool Returns

As of December 31, 2006

Annual Rate of Return	One Year	Since Inception*
Bond Fund		
Municipal Finance Authority**	**4.06%**	**7.76%**
SC Short-term Index**	**3.80%**	**7.44%**
Intermediate Fund		
Municipal Finance Authority**	**3.88%**	**4.84%**
SC 365-Day Treasury Bill Index**	**3.81%**	**4.59%**
Money Market Fund		
Municipal Finance Authority**	**3.94%**	**5.49%**
SC blended 30/91-Day T-Bill Index**	**3.82%**	**5.25%**

*Annual Rate of Return **After fees

The Authority launched its largest ever borrowing in the Fall of 2006 – a $465 million re-opening of its Spring 10-year debenture. The total size of the Spring debenture now sits at $715 million, making it the second largest Canadian municipal bond in history.

This MFA debenture was larger in size than the debentures issued in 2006 by seven out of 10 Canadian provinces. The liquidity added to the MFA debentures by TransLink and the GVRD's water and sewer utilities creates interest rates for MFA's members that are not available to other Canadian municipalities. For example, Toronto and the handful of AAA Ontario municipalities would issue at 7 to 10 basis points above the MFA rates. Combining BC's local government's borrowing requests benefits all MFA members, regardless of size.

POOLED INVESTMENT FUNDS

A combined 230 public institutions in BC used the Authority's Pooled Investment Funds for cash management purposes in 2006. This record number of users pushed the pooled funds under administration to an all-time high of $1.76 billion in July, 2006.

The 5 basis point management fee (.0005) earned by the MFA now represents over 40% of its Operating Revenues and allows the Board of Trustees to establish dividends, develop local government training courses at post-secondary institutions, and financially assist communities and their staff to attend training opportunities.

SHORT-TERM DEBT PROGRAMS

The Authority is able to borrow short-term monies in the Commercial Paper markets at interest rates below those available to Canadian Chartered Banks. By borrowing these short-term monies under the MFA's name, we are able to supply funding to the Interim Financing Program ($211 million outstanding) and the Leasing Program ($48 million) at "Bank Prime less 1.25% and 1.00%" respectively.

During 2006, the Authority borrowed $1,085 million with terms of maturity from 30 to 180 days.

The approximate interest savings to our clients was in excess of $463,000.

The Interim Financing Program's loan portfolio continued to decline as province-wide economic growth and improving cash flows allow many clients to self-finance short-term needs. Those local governments that continue to use the program were pleased to see the relending rate decrease by 5 basis points due to MFA's successful Commercial Paper Program.

The Leasing Program was utilized by 131 public institutions as at year end, with a portfolio of 629 leases and accumulated assets totaling almost $50 million. Fire engines continue to be a very popular item under this program.

Loans under the Interim Financing Program and Leasing Program are flexible and can be repaid on one day's notice without penalty.

LEN TRABOULAY EDUCATION FUND (LTEF)

Established in memory of former Chair Len Traboulay, the LTEF accepts applications for funding from BC's post-secondary institutions that plan to develop educational programs targeted at local governments.

The LTEF provides a development grant, monitors the course's completion, and attendees' satisfaction. This feedback is taken into account when the post-secondary institution submits a future application.

Approximately $85,000 in total grants was awarded in 2006 to: the University of Northern BC, the College of the Rockies, Camosun College, Capilano College, Thompson Rivers University, and the University of Victoria.

SINKING FUND SURPLUSES, STOPPED PAYMENTS AND DIVIDENDS

Sinking Funds are the principal repayments made on the debt borrowings by our clients, and the MFA manages the investment of these repayments. When these investments' earnings exceed their budgeted levels, a Sinking Fund Surplus is generated and these surpluses are returned to our clients. In 2006, surpluses totaled $13.1 million.

A further $10.1 million in principal repayments from clients was "stopped" as they were not required on certain debenture loans since their Sinking Funds' investment earnings were well in excess of budget requirements. In all, BC local governments spent $23.2 million less on debt servicing in 2006 than they had budgeted.

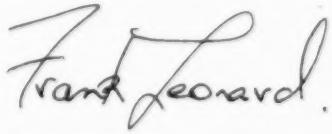
In addition, dividends paid to BC's local governments for 2006 totaled $600,000. Since 1992, the Authority has returned to its clients $4.52 million from operating surpluses and the MFA remains the only municipal borrowing entity in Canada that returns a dividend. These dividends are the operating revenues remaining after covering all the costs of operations.

ACKNOWLEDGEMENTS

This Annual Report features some of the projects local governments finance through the MFA. They are extraordinary achievements in themselves that will be a benefit to their communities and our province for years to come. It is our pleasure to ensure that the financing cost of these projects is minimized due to the collective strength of the MFA and this report describes that we have indeed been successful.

All of this is possible due to the dedicated team that serves the MFA. Our Executive Director and small staff have once again produced extraordinary results. Those who serve us as clients have given full value to the benefit of local governments throughout BC. I am also most grateful for the support of the Members of the Authority, Vice-Chair Kinsley and the Board of Trustees they have elected. Due to these commitments, we are able to report that 2006 was another banner year for the MFA of BC.

Thank you.



FRANK LEONARD, CHAIR
MUNICIPAL FINANCE AUTHORITY
OF BRITISH COLUMBIA

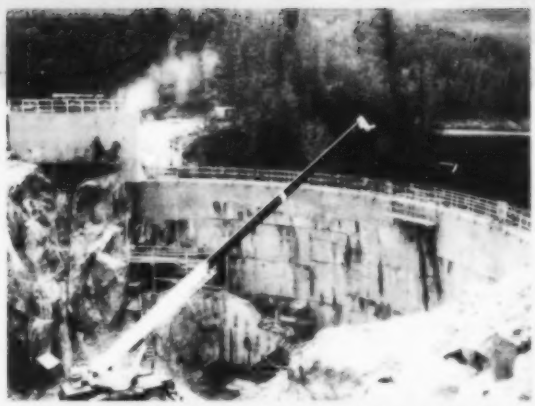


PHOTO CREDITS: KEN ESTRAAT, FINANCIAL ADMINISTRATOR, DISTRICT OF SUMMERLAND

DISTRICT OF SUMMERLAND DAM EXPANSION. RAISING THE DAM HEIGHT AND DOUBLING THE RESERVOIR VOLUME. FINANCED THROUGH THE MFA CAPITAL FINANCING PROGRAM FOR $6 MILLION.

MFA Members 2006

The Municipal Finance Authority represents all local governments in BC

The Municipal Finance Authority of BC represents all local governments in BC.

The MFA is comprised of 35 appointed Members who represent British Columbia's 27 regional districts. Because of their larger populations, some regional districts are entitled to appoint more than one Member. At the Annual General Meeting, MFA Members in turn elect ten Trustees. The Board of Trustees is comprised of a Chair, Vice-Chair, and eight Trustees.

Of the ten Trustees, four must be from the Greater Vancouver Regional District, one from the Capital Regional District, and five from the remaining regional districts. The Board of Trustees works closely with staff year-round to determine the policies that guide the MFA's operations.

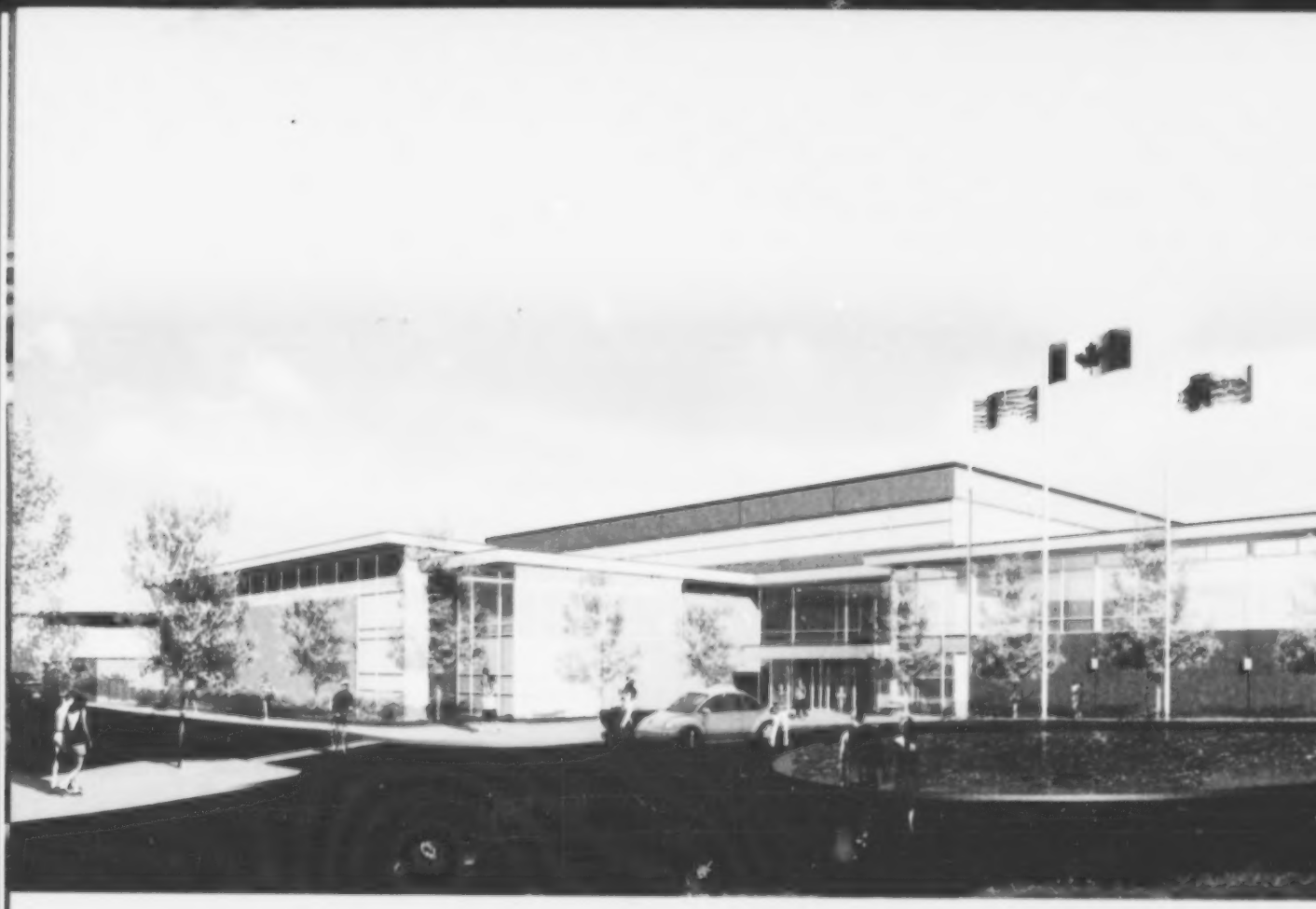
The Members of the Authority meet twice each year, once at the Annual General Meeting in March and again at the Semi-annual Meeting in September or October.

REGIONAL DISTRICT	MEMBER APPOINTED	ALTERNATE
Alberni-Clayoquot	M. Kokura	H. Chopra
Bulkley-Nechako	S. Smith	
Capital	F. Leonard*	C. Causton
Capital	D. Amos	S. Brice
Cariboo	A. Richmond	D. Barnett
Central Coast	B. Lande	
Central Kootenay	J. Voykin	H. Cunningham
Central Okanagan	R. Hobson*	L. Novakowski
Columbia Shuswap	R. Martin	J. Doyle
Comox-Strathcona	P. Ives	
Cowichan Valley	G. Ridgway	
East Kootenay	G. Deck*	K. Trescher
Fraser-Fort George	C. Kinsley*	M. Frazier
Fraser Valley	C. Hames	G. Ferguson
Greater Vancouver	D. MacLean*	C. Jordan
Greater Vancouver	W. Wright*	R. Drew
Greater Vancouver	R. Walton	P. Goldsmith-Jones
Greater Vancouver	M. Hunt*	L. Hepner
Greater Vancouver	S. Young	R. Turner
Greater Vancouver	M. Brodie	J. Higginbotham
Greater Vancouver	R. Louie*	P. Ladner
Greater Vancouver	D. Corrigan	G. Martin
Kitimat-Stikine	I. Talstra	H. Nyce
Kootenay Boundary	G. DeRosa	B. Baird
Mount Waddington	G. Furney*	
Nanaimo	J. Stanhope	G. Holme
North Okanagan	J. Oglow	S. Field
Northern Rockies	J. Sime	M. Gilbert
Okanagan-Similkameen	D. Ashton*	G. Hanson
Peace River	C. Kruk	E. Saugstad
Powell River	C. Palmer	P. Brabazon
Skeena-Queen Charlotte	B. Pages	
Squamish-Lillooet	R. Kahlon	R. Oakley
Sunshine Coast	J. Rees	E. Steeves
Thompson-Nicola	B. Walker	J. Ranta

*Trustee

OFFICERS

Executive Director	Steve Berna
Director of Finance	Graham Egan



THE $22 MILLION KAMLOOPS FIELD HOUSE IS 135,000 SQUARE FEET IN SIZE, AND CONTAINS A 200-METRE, SIX-LANE INDOOR TRACK, GYMNASIUM, COURTS, AND THROWS AREA. SCHEDULED OPENING – SPRING 2007.

An effective, well-organized team

Back: Steve, Graham, Tyler, Lorna
Front: Allison, Jane, Shelley, Meagan, Renata

STEVE BERNA, CA EXECUTIVE DIRECTOR
Steve oversees the MFA's operations and works closely with the MFA's Board of Trustees to establish programs and new financial products and services. His main responsibilities are capital financing and debt restructuring, as well as building strong working relationships with MFA clients and its underwriting syndicate. Steve is also the voice of MFA at international conferences.

GRAHAM EGAN, CA DIRECTOR OF FINANCE
Graham is responsible for managing investments and also for debt issue maintenance, sinking fund surplus projections, stop payments, and future debt costs. Graham also administers the Debt Reserve Fund, supervises the accounting department, oversees the preparation of the annual financial statements, and coordinates the development of information systems and software.

SHELLEY HAHN MANAGER OF FINANCIAL SERVICES
Shelley oversees the day-to-day accounting for all our programs. She prepares our monthly and annual financial statements and manages the Commercial Paper Program. Shelley is responsible for coordinating and administering all bylaws that support our debt issuance, and she works with the Ministry of Community Services on bylaw and borrowing issues. Shelley is on the board of the Government Finance Officers Association of BC.

ALLISON BOYD EXECUTIVE ASSISTANT
Allison works closely with the Executive Director and is responsible for organizing MFA Members' activities, including Board of Trustees meetings and the Financial Forum. She is responsible for the layout and design of the MFA's annual report, web site, brochures, and marketing material. Allison is also on the board of the Len Traboulay Education Fund Committee.

RENATA N. HALE, CGA SENIOR ACCOUNTANT
Renata works closely with the Manager of Financial Services in maintaining the accounting records for the Capital Financing Program. She administers disbursements under the Province's former Sewer and Water Grants Program and is responsible for the Pooled Investment Funds Program. Renata also assists Jane Morrison with the Leasing Program.

JANE MORRISON, B.A. ECON. ACCOUNTANT
Jane is responsible for the daily operation of our Leasing Program and the Interim Financing Program. She also oversees long-term debt invoicing and calculates the dividends payable to our Interim Financing and Leasing clients. Jane also assists Meagan Carver with the Municipal Investment Plan.

MEAGAN CARVER, B. COMM ACCOUNTING ASSISTANT
Meagan is responsible for the daily administration of the Operating Fund and for promoting our Municipal Investment Plan. She assists with the monthly accounting processes and the Pooled Investment Fund. Meagan also assists Jane Morrison with the Interim Financing Program.

LORNA ARMITAGE ADMINISTRATIVE ASSISTANT
Lorna is the voice you hear and the face you see on the front lines of the MFA. She is responsible for the MFA's communication systems, for maintaining our data bases, and for mass mail distributions and ordering office supplies. As our in-house travel agent, Lorna arranges all staff travel. She also assists all staff with their administrative functions.

TYLER THOMPSON FINANCE AND ADMINISTRATIVE ASSISTANT
Tyler is responsible for year-end reports, general and rating agency presentations, data entry, and borrowing-power statistics. He also invoices clients and issues cheques for surplus dividends. In addition, Tyler works with the Manager of Financial Services to gather loan authorization bylaws and other documents necessary to compile each MFA debenture issue.

What can the MFA do for you?

AN INDEPENDENT COLLECTIVE STRUCTURE

The Municipal Finance Authority of British Columbia (MFA) was formed in 1970 to promote the financial well-being of local governments throughout BC. We do that with a simple yet effective collective structure that operates much like a credit union, pooling the borrowing needs and investment needs of BC local government and providing a wide range of other low-cost, flexible financial services. The MFA is 100% owned by BC local government.

WHAT DOES THE MFA DO?

We provide capital financing, investment, leasing, and short-term financial services to local governments and other public institutions across BC.

WHY BORROW THROUGH THE MFA?

The MFA's strong credit rating allows local governments to receive funding at interest rates below those available to themselves individually or at chartered banks in Canada.

WHAT ELSE CAN WE DO FOR YOUR COMMUNITY?

We do much more than raise money for capital projects. The MFA also offers three programs that your local government or organization can use to make the most of its financial resources. These programs:

1. invest surplus funds at better than market rates—funds are professionally managed.
2. arrange low-cost, flexible leases (prime less 1%)—in or out on one day's notice with no penalties.
3. provide short-term financing at attractive rates (prime less 1.25%)—in or out on one day's notice with no penalties.

Think of us as your local government's banker—a financial service provider that understands the uniqueness of your community.

FINANCIAL FORUM

In conjunction with our Annual General Meeting each year, the MFA offers a complimentary one-day Financial Forum that provides local governments with networking and education opportunities and exposure to new or timely topics. These sessions are presented by experts in the topic area.

EDUCATION PROGRAM

The Len Traboulay Education Fund provides financial assistance to colleges and universities in BC that are developing courses for local government staff and elected officials. The fund has provided assistance to colleges and universities in most areas of the province.

COMMUNITY WORKSHOPS

Each year we arrange a series of free workshops that address issues of critical importance to local communities. We explore new ways of doing business and alternative financial management techniques by promoting community solutions that encourage regions to work together.

SINKING FUNDS

Principal repayments on debt borrowed by our clients are managed internally, and the earnings on these investments accumulate to pay off our debt outstanding. On a typical 20-year loan, local governments repay 66% of the money borrowed, and we earn the other 34% for them.

DIVIDEND AND SURPLUS

We return monies, not needed to pay for operations, to our clients as dividends—$600,000 in 2006.

We return, as surpluses, investment earnings that exceed the amounts needed to cover our debt commitments—$23.2 million in 2006 ($13.1 million as surplus cheques and a further $10.1 million in stopped payments).

MUNICIPAL INVESTMENT PROGRAM

This is a voluntary investment program for municipal employees, elected officials, and their partners that offers substantially lower mutual fund management fees than available to individuals. The savings are passed onto you as increased returns. With the chosen service provider, Sun Life, MFA offers an extensive selection of mutual funds to choose from in both the registered and non-registered categories.

COMMUNITY BONDS

Community Bonds are an alternative to conventional borrowing. Local citizens provide funding within the community by buying bonds in support of local government capital projects. These bonds create a strong sense of community ownership. Because these loans are endorsed by MFA's high credit rating, interest rates are below those available in outside bond markets.

Contact us today for more information on any of these programs and services. See page F44 for contact information.

Client Participation in MFA Programs

From regional districts to municipalities to first nations to regional libraries, the Municipal Finance Authority of BC is helping to build local communities across British Columbia. All in all, more than 280 groups participate in at least one of our four voluntary programs: Pooled Investments, Interim Financing, Leasing and the Municipal Investment Plan.

In addition to being able to finance capital projects at low interest rates, participants receive dividends on three of the programs, save money on short-term borrowing, and lease equipment or rolling stock at preferred rates. The Municipal Investment Plan (MIP) allows municipal elected officials, staff and spouses access to registered and non-registered investment funds for their personal retirements, at reduced management fees compared to market. Indicated below are the MIP participants that contribute through payroll deductions.

PI = Pooled Investments
IF = Interim Financing
LE = Leasing
MIP = Municipal Investment Plan
√ = Yes = in program
• = no = not in program
◊ = not applicable or not available

REGIONAL DISTRICTS:	PI	IF	LE	MIP
Alberni-Clayoquot	√	•	√	•
Bulkley-Nechako	√	√	√	√
Capital	√	•	√	•
Cariboo	√	√	√	•
Central Coast	√	•	√	•
Central Kootenay	√	√	√	•
Central Okanagan	√	•	√	•
Columbia Shuswap	√	√	•	√
Comox-Strathcona	√	√	√	√
Cowichan Valley	√	√	√	√
East Kootenay	√	•	√	•
Fraser-Fort George	√	√	•	•
Fraser Valley	√	√	√	•
Greater Vancouver	•	•	•	•
Kitimat-Stikine	√	•	•	√
Kootenay Boundary	√	√	√	√
Mount Waddington	√	•	√	•
Nanaimo	√	√	√	•
North Okanagan	√	√	√	•
Northern Rockies	√	•	√	√
Okanagan-Similkameen	√	•	√	•
Peace River	√	√	•	√
Powell River	√	√	√	•
Skeena-Queen Charlotte	√	•	√	•
Squamish-Lillooet	√	√	√	√
Sunshine Coast	√	√	√	√
Thompson-Nicola	√	•	√	•

MUNICIPALITIES:	PI	IF	LE	MIP
100 Mile House	√	√	•	•
Abbotsford	√	•	•	•
Alert Bay	√	√	√	•
Anmore	√	√	√	•
Armstrong	√	•	√	√
Ashcroft	√	√	√	•
Belcarra	√	•	√	•
Bowen Island	√	√	•	√
Burnaby	•	•	•	•
Burns Lake	√	•	√	•
Cache Creek	√	•	•	√
Campbell River	√	•	√	•
Canal Flats	•	•	•	•
Castlegar	√	•	•	•
Central Saanich	√	•	•	√
Chase	√	•	√	•
Chetwynd	√	•	√	•
Chilliwack	√	•	•	•
Clinton	√	√	√	•
Coldstream	√	√	√	•
Colwood	√	•	√	•
Comox	√	√	√	•
Coquitlam	√	•	•	•
Courtenay	√	√	√	•
Cranbrook	•	•	•	•
Creston	√	•	√	•
Cumberland	•	√	√	•
Dawson Creek	√	√	•	•
Delta	•	•	√	•
Duncan	√	√	√	•
Elkford	•	•	√	•
Enderby	√	•	•	•
Esquimalt	√	•	√	•
Fernie	√	•	√	•
Fort Nelson	•	•	√	•
Fort St. James	•	•	√	•
Fort St. John	√	√	√	√
Fraser Lake	•	•	•	•
Fruitvale	•	√	√	•
Gibsons	√	√	•	•
Gold River	√	•	•	•
Golden	√	√	√	•
Grand Forks	•	•	√	•
Granisle	√	•	√	•
Greenwood	√	•	√	•
Harrison Hot Springs	•	•	√	•
Hazelton	√	•	√	√
Highlands	•	•	√	•
Hope	√	•	√	√
Houston	√	√	√	•
Hudson's Hope	•	•	√	•
Invermere	•	•	√	√
Kamloops	√	√	√	•
Kaslo	√	•	√	•
Kelowna	√	•	•	•
Kent	√	•	√	•
Keremeos	√	√	√	•
Kimberley	√	•	√	•
Kitimat	√	•	•	√
Ladysmith	√	•	√	√
Lake Country	√	√	•	•
Lake Cowichan	√	•	√	•
Langford	√	√	√	•
Langley (City)	•	•	•	•
Langley (Township)	•	√	•	•
Lantzville	√	•	√	√
Lillooet	√	•	•	•
Lions Bay	•	•	•	•
Logan Lake	•	•	•	•
Lumby	√	•	•	•
Lytton	•	•	√	•
Mackenzie	√	•	√	•
Maple Ridge	√	√	•	•
Masset	√	√	√	•
McBride	√	•	√	•
Merritt	√	√	√	•
Metchosin	√	•	√	•
Midway	√	•	√	•
Mission	√	•	•	√
Montrose	√	•	√	•
Nakusp	√	√	√	•
Nanaimo	√	•	•	•
Nelson	√	•	√	•
New Denver	√	•	√	•
New Hazelton	√	•	•	•
New Westminster	√	•	•	•
North Cowichan	√	•	√	•
North Saanich	√	•	√	•
North Vancouver (City)	•	•	•	√
North Vancouver (District)	√	•	√	•
Oak Bay	√	•	√	•
Oliver	√	•	√	√
Osoyoos	•	•	√	√
Parksville	√	√	•	•
Peachland	√	√	√	•
Pemberton	√	√	√	•
Penticton	√	•	•	•
Pitt Meadows	√	•	√	•
Port Alberni	√	√	•	•

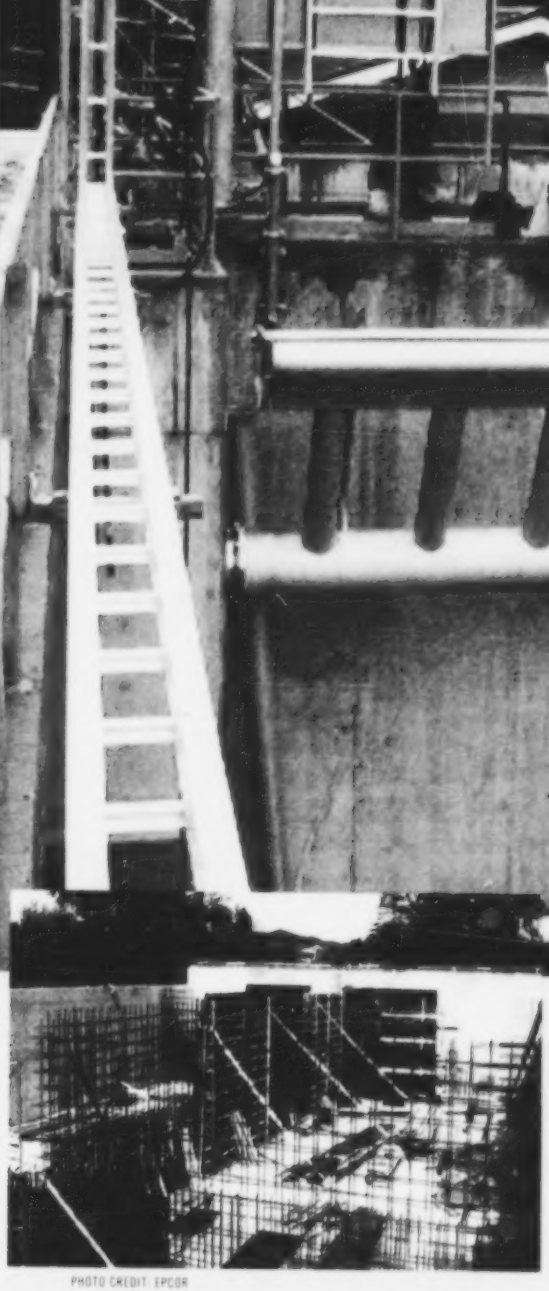


PHOTO CREDIT: EPCOR

DISTRICT OF SOOKE SEWER LINE PROJECT, BORROWED THROUGH THE MFA CAPITAL FINANCING PROGRAM FOR $8.8 MILLION.

Client Participation in MFA Programs **continued**

MUNICIPALITIES (CONTINUED):	PI	IF	LE	MIP		PI	IF	LE	MIP		PI	IF	LE	MIP
Port Alice	√	•	•	√	Saanich	√	•	√	√	Telkwa	√	√	√	•
Port Clements	√	•	•	•	Salmo	√	•	√	√	Terrace	√	•	•	•
Port Coquitlam	√	•	•	•	Salmon Arm	√	√	•	•	Tofino	√	•	√	•
Port Edward	√	√	√	•	Sayward	√	•	√	•	Trail	√	•	√	•
Port Hardy	√	√	√	•	Secheit	√	•	√	•	Tumbler Ridge	√	•	√	•
Port McNeill	√	•	•	•	Sicamous	√	•	•	√	Ucluelet	√	•	•	•
Port Moody	√	•	√	•	Sidney	√	√	√	•	Valemount	√	•	√	•
Pouce Coupe	√	•	√	•	Silverton	√	√	√	•	Vanderhoof	•	•	•	•
Powell River	√	√	√	•	Slocan	√	•	•	•	Vernon	√	•	•	•
Prince George	√	•	√	•	Smithers	√	√	√	•	Victoria	√	•	•	•
Prince Rupert	√	√	√	•	Sooke	√	√	√	•	View Royal	√	•	√	•
Princeton	√	•	•	•	Spallumcheen	•	•	•	•	Warfield	√	•	√	•
Qualicum Beach	√	•	√	•	Sparwood	√	•	√	•	Wells	•	•	√	•
Queen Charlotte	√	•	•	•	Squamish	•	√	•	•	West Vancouver	√	•	•	•
Quesnel	√	•	•	•	Stewart	√	•	√	•	Whistler	√	•	•	•
Radium Hot Springs	√	•	√	•	Summerland	√	•	•	•	White Rock	√	•	√	•
Revelstoke	√	•	√	•	Surrey	√	•	•	•	Williams Lake	√	√	√	•
Richmond	•	•	√	•	Tahsis	√	•	•	•	Zeballos	√	•	•	•
Rossland	√	√	√	•	Taylor	√	•	√	•					

FIRST NATIONS:	PI	IF	LE	MIP		PI	IF	LE	MIP		PI	IF	LE	MIP
Adams Lake Indian Band	√	0	0	•	Kwaw-Kwaw-A-Pilt Band	√	0	0	•	Tl'azt First Nation	√	0	0	•
Bonaparte Indian Band	√	0	0	•	Matsqui Band	√	0	0	•	Tsawwassen First Nation	√	0	0	•
Chawathil Indian Band	√	0	0	•	Millbrook First Nation	√	0	0	•	Tzeachten Indian Band	√	0	0	•
Chemainus First Nations	√	0	0	•	Namgis First Nation	√	0	0	•	Waabnoong Bemji Association	√	0	0	•
Ch-ihl-kway-uhk Tribe Society	√	0	0	•	Seabird Island Indian Band	√	0	0	•	Westbank First Nation	√	0	0	•
Cowichan Tribes	√	0	0	•	Shammon First Nation	√	0	0	•	Westbank First Nation Taxation	√	0	0	•
First Nations Finance Authority	√	0	0	•	Songhees/Esquimalt First Nation	√	0	0	•					
Kamloops Indian Band	√	0	0	•	Sto:lo Nation	√	0	0	•					

HOSPITAL/REGIONAL HOSPITAL DISTRICTS:	PI	IF	LE	MIP		PI	IF	LE	MIP		PI	IF	LE	MIP
Alberni-Clayoquot	•	√	0	•	Fraser Valley	√	√	0	•	Sea to Sky Regional Hospital	√	•	0	•
Capital	•	√	0	•	Fraser-Fort George	√	√	0	•	Sparwood General Hospital	√	•	0	•
Cariboo/Cariboo-Chilcotin	√	•	0	•	Kootenay Boundary	•	√	0	•	Squamish-Lillooet	√	√	0	•
Central Coast	√	•	0	•	Kootenay East/East Kootenay	√	√	0	•	Stuart-Nechako	√	•	0	•
Central Okanagan	•	√	0	•	Nanaimo	•	√	0	•	Thompson/Thompson-Nicola	√	√	0	•
Columbia-Shuswap	•	√	0	•	Okanagan-Similkameen	√	•	0	•	West Kootenay Boundary	√	√	0	•
Delta General Hospital	√	•	0	•	Peace River	√	√	0	•					

OTHERS:	PI	IF	LE	MIP		PI	IF	LE	MIP		PI	IF	LE	MIP
Association of Kootenay Boundary	√	0	0	•	Hedley Improvement District	√	0	0	•	North Peace Airport Association	√	0	0	•
Association of Yukon Communities	√	0	0	0	Integrated Cadastral Society	√	0	0	•	Okanagan-Kootenay Sterile Insect Release	•	√	0	•
Barriere Improvement District	√	0	0	•	Iroquois Falls, Ontario	0	0	√	0	Okanagan Mainline Municipal Association	√	0	0	•
Bighorn, Alberta	0	0	√	0	Islands Trust	√	0	0	•	Old Masset Village	√	0	0	•
Bluewater, Ontario	0	0	√	0	Jasper, Alberta	0	0	√	0	Oliver Kaleden Recreation	√	0	0	•
Canmore, Alberta	0	0	√	0	Lambton County, Ontario	0	0	√	0	Oliver Parks & Recreation	•	0	√	•
Carmacks, Yukon	√	0	0	0	Lambton Shores, Ontario	0	0	√	0	Peace River Regional Advisory Committee	√	0	√	•
Capital Regional Housing Corporation	√	0	0	•	Local Government Management Association	√	0	0	•	Port Alberni Harbour Commission	√	0	0	•
Central Huron, Ontario	0	0	√	0	Lower Mainland Municipal Association	√	0	0	•	Port McNeill Housing Society	√	0	0	•
CivicInfo BC	√	0	0	√	Lund Improvement District	√	0	0	•	Razor Point Improvement District	√	0	0	•
Comox Fire Protection	√	0	0	•	Mounte Park Estates Improvement District	√	0	0	•	Shawnigan Improvement District	√	0	0	•
CREST	•	√	•	•	Municipal Finance Authority					South East Kelowna Irrigation District	√	0	0	•
Dawson City, Yukon	•	0	√	0	of British Columbia	√	√	•	√	Southern Interior Development				
E-Comm	•	√	•	•	Municipal Insurance Association	√	0	0	•	Initiative Trust	√	0	0	•
Fraser Basin Council Society	√	0	0	•	Nootka Sound Economic					Tecumseh, Ontario	0	0	√	0
Fraser Valley Regional Library	√	0	0	•	Development Corp	√	0	0	•	Thorold, Ontario	0	0	√	0
Gananoque, Ontario	0	0	√	0	North Central Municipal Association	√	0	0	•	Union of BC Municipalities	√	0	0	√
Government Finance Officers' Association	√	0	0	•	North Island 911 Corporation	•	0	0	√	Vancouver Island Regional Library	√	0	0	•
Greater Napanee, Ontario	0	0	√	0	North Island Coast Development					Welland, Ontario	0	0	√	0
Greater Victoria Public Library	√	0	√	•	Initiative Trust	√	0	0	•	West Shore Parks & Recreation	•	•	√	•

SCHOOL DISTRICT/ COLLEGES/UNIVERSITIES:	PI	IF	LE	MIP		PI	IF	LE	MIP		PI	IF	LE	MIP
College of New Caledonia	•	0	√	•	Langara	•	0	√	•	School District #75	√	0	0	•
College of the Rockies	√	0	•	•	School District #50	√	0	0	•	University of Northern BC	√	0	•	•

Financial Summary

THOUSANDS OF DOLLARS

AT DECEMBER 31	**2006**	2005
CAPITAL FINANCING		
Total assets	**5,076,437**	4,694,348
Loans to clients outstanding	**3,464,840**	3,262,912
Long-term debt outstanding	**4,437,336**	4,005,947
Investments, to repay debt	**1,294,111**	1,051,810
Long-term debt, net of investments	**3,143,225**	2,954,137
Short-term loans outstanding	**109,169**	143,773
Debt Reserve Fund, assets	**92,469**	85,886
Debt Reserve Fund, demand notes (note 14, page F21)	**194,251**	186,817
YEAR ENDED DECEMBER 31		
Long-term:		
New loans to clients	**466,763**	410,379
Loan repayments from clients	**264,835**	389,651
New debt issued	**715,175**	531,230
Debt retired	**297,260**	459,385
Interest paid	**233,118**	243,751
Investment income	**65,326**	77,637
Short-term:		
New loans to clients	**146,222**	177,973
Loan repayments from clients	**180,826**	263,779
Bank indebtedness and commercial paper issued	**3,054,260**	1,665,134
Bank indebtedness and commercial paper repaid	**3,063,457**	1,745,437
Interest paid	**12,606**	8,919
POOLED INVESTMENTS		
Money Market Fund - Unitholders' Equity	**1,105,091**	1,143,995
Intermediate Fund - Unitholders' Equity	**202,912**	167,814
Bond Fund - Unitholders' Equity	**161,183**	201,687

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MANAGEMENT DISCUSSION AND ANALYSIS

The continued strong economic growth in the Province of British Columbia has had a profoundly positive impact on local government cash flow and balance sheet positions. Once a much needed, and used, financial tool, the Interim Financing Program (which lends short-term monies for operating lines of credit) continued to see a decrease in demand. In the late 1990s, BC's local governments tapped this Program for $200 million each Spring prior to the tax collection time. In 2006, this demand was reduced to $19 million, indicating that the great majority of local governments are experiencing sufficient cash flows to fund operations internally. This is extraordinary since local governments operate on a calendar-year basis, yet only collect tax revenues once a year, June 30 – therefore, their cash flows cover six months of operations before tax monies are received.

Joint & Several

Under the *MFA Act*, all local governments guarantee each other's debt borrowings. This Joint & Several approach provides the MFA unfettered access to the full property assessment base in the Province of British Columbia (without needing Provincial approval). This access would occur only if there was ever a default in a debt service payment by an MFA client. Strong controls over the borrowing process (i.e., public approval is required on long-term debt borrowings) and restrictions or limits on how much each local government is allowed to borrow have helped retain MFA's "100% on-time" collection record – no default has ever occurred since inception in 1970.

Tables

The tables below show the historical trends on the various financial material analyzed by the rating agencies.

INTEREST EXPENSE AS A PERCENTAGE OF REVENUES

Even though local government net debt has increased from $2.132 billion in 2000 to $3.128 billion in 2006, due to infrastructure demands, MFA clients have not eroded this ratio. Revenues have continued to outpace debt-service demands.

RESERVES & SURPLUS VS. NET DEBT

Local governments in BC have long held a "net credit" financial position. Although no formal policy exists on what the "net credit" factor should be, each year Councils pass budgets that generally maintain prior years' levels. Large capital projects (water and sewer) in 2002 temporarily diminished this factor.

MANAGEMENT DISCUSSION AND ANALYSIS continued

RESERVES & SURPLUS VS. DEBT SERVICE

MFA clients continue to maintain a healthy "coverage factor". The growth in these Reserves & Surplus funds, even in times of infrastructure demands, positions MFA's client base in a healthy financial situation from which to deal with the demands that accompany economic growth.

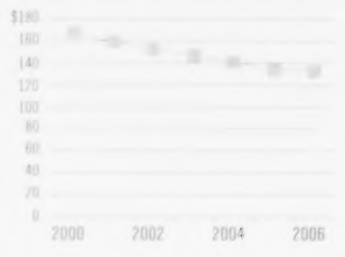
PROTECTION FOR INVESTORS

MFA's annual interest payments of $267 million are fully backstopped by a $300 million revolving credit facility with a chartered bank. Indeed, MFA's largest single-day interest liability of $40 million (June 1 and December 1) is covered by this revolving credit facility by a factor of 7.5 times. MFA's internally managed Debt Reserve Fund ($92 million) alone would more than cover its largest single-day interest payment. Approximately $40 million of the Debt Reserve Fund is accessible on one day's notice.

PROPERTY ASSESSMENT GROWTH

Enormous growth in employment and construction demands have lowered the ratio of "Interest Expense per Assessed Property" in BC. If the MFA ever activated its Joint & Several ability, the impact per assessed property to cover a full year's interest expense is shown in the following graph. Obviously, this is a draconian ratio, and given that there are 210 MFA borrowing clients, the default by one member would be much mitigated – fully coverable by the MFA's Debt Reserve Fund.

INTEREST EXPENSE PER ASSESSED PROPERTY



The above numbers reflect trends for a seven year period. Projections prepared for the rating agencies do not show a deterioration of the current healthy financial position.

Steve Berna,
Executive Director

MUNICIPAL FINANCE AUTHORITY AT A GLANCE

How We Operate

Responsibility

The Municipal Finance Authority of British Columbia was established in 1970 by the *Municipal Finance Authority Act*.

Regional districts and municipalities within BC finance all long-term capital requirements through the MFA, except those met by senior levels of government.

Since 1995, our client base has expanded to include the Greater Vancouver Water District and the Greater Vancouver Sewerage and Drainage District (Utilities), Emergency Communications for Southwest British Columbia (E-Comm), Regional Hospital Districts (RHD) and the Greater Vancouver Transportation Authority (GVTA or TransLink).

The City of Vancouver is the only municipality that retains the right to issue its own securities to finance capital projects. However those regional capital projects of which Vancouver is a part (water, sewer, GVTA) that are funded at the Regional District level are financed through the MFA. Taxable land and improvements within the City of Vancouver are nevertheless subject to rates levied by the Municipal Finance Authority of BC for the annual operating levy and also to replenish the debt reserve fund, should it ever be drawn upon.

Representation

The Province of BC is divided into 27 regional districts, each of which is governed by a regional board consisting of representatives of its member municipalities and unincorporated areas. The MFA is comprised of 35 Members (due to population, two of the 27 regional districts are entitled to more than one MFA Member) who represent these districts. A complete list of Members and Board of Trustees and a description of how they are selected is provided on page seven of the front section of this report.

Funding

When the MFA's clients wish to finance capital projects, regional district and Ministry-approved bylaw requests are presented to the MFA and are subject to approval by the MFA Members. Taking into account market and economic conditions, the MFA's Board of Trustees then may authorize the issue and sale of debentures sufficient to meet aggregate client requests.

Proceeds from the sale of these debentures are not to exceed the amount authorized. The Board of Trustees also determines the rates, terms, and conditions, including the markets and currencies, for the sale of these securities.

The MFA has the power to provide for the creation, management, and application of sinking funds, or other means of securing the repayment of its debentures, including calling for their early redemption.

A separate sinking fund account is maintained for each debenture issue. Principal repayments from clients, or monies which cannot be immediately applied toward repaying the debt, may be invested in:

a) securities of the government of Canada or a province of Canada, or

b) securities fully guaranteed by the government of Canada or by a province of Canada, or

c) securities of a municipality or regional district in BC or another province of Canada, maturing not later than the debentures for which the sinking fund was created, or

d) investments guaranteed by a Canadian chartered bank, or

e) deposits in or securities of a credit union incorporated under the *British Columbia Credit Union Act*, or

f) securities of the MFA maturing not later than the debentures for which the sinking fund was created.

How We Safeguard Our Investors

Financial Protection

In BC, the combined credit of all the regional districts and their member municipalities, the utilities, TransLink, and regional hospital districts – which together have essentially all the taxable land and improvements in the province – stands behind the MFA's obligations.

In addition, the MFA has established a debt reserve fund. Each client must contribute to this fund for securities issues in which they participate that have a term of five years or more. The contribution is equal to one-half the client's average annual principal and interest installment. This amount is payable to the MFA at the time of issue, either in full or in an amount equal to one percent of the principal amount borrowed. The balance is secured by a non-interest-bearing demand note of the regional district or regional hospital district issued to the MFA.

Monies paid into the debt reserve fund and interest that the fund earns are obligations of the MFA to its clients and must be refunded to them when final loan installments have been made. However, if a municipality, utility, or TransLink has discharged its debt obligation to a regional district, or regional hospital district by itself, the MFA may, during the term of the issue, repay to the regional district the one percent withholdings plus earnings thereon. This repayment will be for the credit of the municipality, utility, or TransLink. The regional hospital districts' monies are returned directly to themselves.

If, at any time, the MFA lacks sufficient funds to meet principal, interest, or sinking fund payments due on its obligations, it must utilize the debt reserve fund. All or any part of this fund is available to satisfy MFA obligations, regardless of the sources of the money in the fund. In the event that payments are made from the debt reserve fund, the MFA will recover such payments from the regional districts and regional hospital districts involved to restore the debt reserve fund. There has never been a default by an MFA client in its history.

If the Board of Trustees are of the opinion that payments made from the debt reserve fund will not be recovered within a reasonable period, they will levy upon all taxable land and improvements in the province a tax sufficient to restore the fund. It is mandatory for the Board of Trustees to levy such a tax when the balance in the debt reserve fund is less than 50 percent of what the balance would have been had no such payments been made. The defaulting client is not relieved of its unpaid balance owing and is obligated to reimburse the other MFA clients that covered the default.

The Board of Trustees' power to impose taxes does not require the permission or approval of any other governmental authority. Pending the receipt of such taxes, the Authority may borrow an equivalent amount to meet its obligations.

The provincial government has guaranteed that the debt reserve fund will be maintained in accordance with the *Municipal Finance Authority Act*. The Inspector of Municipalities may inspect the fund from time to time and issue a certificate that it has been maintained at the proper level.

Monies in the debt reserve fund may be invested in:

a) securities of the government of Canada or a province of Canada, or

b) securities fully guaranteed by the government of Canada or a province of Canada, or

c) deposits in or investments guaranteed by a Canadian chartered bank, or

d) deposits in or securities of a credit union incorporated under the *British Columbia Credit Union Act*.

These investments must mature or be callable within five years; and at least 25 percent of the fund must be callable within 90 days.

Legislative Protection

Clients who finance through the MFA must obtain the same provincial approvals as are required if they were issuing their own securities. In this way, all the safeguards imposed by the BC legislature on incurring clients' indebtedness are retained. These safeguards require that the Inspector of Municipalities or the Ministry of Health approve the debt and user charges, if any, and other taxes to service the debt. In addition, water and sewer projects are self-liquidating, meaning they are fully financed, without any cross-funding from the local government's general fund.

Limitations on the borrowing power of a client for each borrowing function (i.e., sewer, water, roads, etc.) may be specified in its letters patent. Municipalities in BC cannot borrow debt that will cause annual debt service payments to exceed a certain percent of revenues (approximately 25%).

How We Serve Our Clients

The Municipal Finance Authority of British Columbia was established because it made economic sense for individual municipalities and regional districts to borrow together as a group and to guarantee each other's credit. By acting together we are able to provide low-interest-rate financing for local governments' capital programs and offer other innovative, flexible financial services.

Pooled Investment Program

ORGANIZATION

The *Municipal Finance Authority Act* was amended in 1988 authorizing the MFA to provide short-term investment opportunities for regional districts and municipalities in BC. In 1992, the Act was further amended to extend the investment program to certain other public institutions in BC.

The amendments resulted in the establishment and operation of three pooled investment funds. Two funds commenced operations in May, 1989 and a third in 1994.

PARTICIPATION

Participation in the Pooled Investment Program by public institutions is voluntary.

INVESTMENT ACTIVITIES

The investment activities of the funds are governed by the *Municipal Finance Authority Act* and a charter of investment policies, objectives and guidelines.

Interim Financing Program

ORGANIZATION

The Interim Financing Program commenced operations in December, 1990 after amendments were made to the Municipal Finance Authority Act to enable the MFA to offer interim financing to regional districts and municipalities. In 1992, the Act was further amended to include certain other public institutions in BC.

PARTICIPATION

Participation in the Interim Financing Program by public institutions is voluntary.

PURPOSES FOR WHICH INTERIM FINANCING MAY BE PROVIDED

The Authority may provide financing for one or more of the following purposes:

a) temporary financing of capital projects

b) short-term capital borrowing for up to five years

c) tax revenue anticipation borrowing

d) temporary financing to meet current operating expenditures

Leasing Program

ORGANIZATION

In 1995, the Municipal Finance Authority started its Leasing Program. The Authority is authorized to finance short-term debt for capital expenditures, including leasing.

PURPOSES FOR WHICH LEASING MAY BE PROVIDED

All commonly leased assets, from office equipment to rolling stock, are eligible under the program.

PARTICIPATION

Participation in the program is voluntary. The program is now available to colleges and universities and may also soon be made available to other public bodies.

Management Report

The consolidated financial statements of the Municipal Finance Authority of British Columbia (the "Authority") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at January 25, 2007.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization.

The financial statements have been examined by KPMG LLP, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present the Authority's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. Their Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Trustees monitors management's responsibility for financial reporting and internal controls. The Board, comprised of Trustees who are not employees, meets regularly with the external auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the members of the Authority. The external auditors have full and open access to the Board, with and without the presence of management.

Secretary-Treasurer
Victoria, British Columbia, Canada

Auditors' Report

TO THE MEMBERS OF THE MUNICIPAL FINANCE AUTHORITY
OF BRITISH COLUMBIA

We have audited the consolidated balance sheets of the Debt Fund, Debt Reserve Fund, and the Operating Fund (collectively, the "Capital Financing Funds") of the Municipal Finance Authority of British Columbia (the "Authority") as at December 31, 2006 and 2005, and the consolidated statements of revenue, expenditure and surplus and cash flows of each of these Funds for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Capital Financing Funds of the Authority as at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Victoria, British Columbia, Canada
January 25, 2007

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

THOUSANDS OF DOLLARS

		CONSOLIDATED		DEBT FUND	
		2006	2005	2006	2005
ASSETS					
Loans to clients (Note 2) (Schedule page F27)	$	3,464,840	3,262,912	3,464,840	3,262,912
Short-term loans to clients (Note 3)		109,169	143,773	109,169	143,773
Investments, net of holdings of the Authority (Note 4)		1,294,111	1,061,610	1,214,709	989,292
Investments under management (Note 5)		60,567	108,310	60,567	108,310
Accrued interest and other receivables		109,771	91,317	109,047	90,867
Deferred issue costs and other		21,927	24,597	21,927	24,597
Cash and cash equivalents		15,297	10,849	5,081	5,157
Capital assets (Note 6)		755	780	—	—
Due from Debt Fund		—	—	—	—
Total Assets	$	5,076,437	4,694,148	4,985,340	4,624,508
LIABILITIES					
Long-term debt (Note 7) (Schedule page F29)	$	4,437,336	4,005,947	4,443,472	4,005,567
Bank and short-term indebtedness (Note 8)		260,189	269,386	260,189	269,386
Due to clients (Note 9)		98,438	85,634	5,969	10,751
Due to clients — investments under management (Note 5)		60,567	108,310	60,567	108,310
Accounts payable and accrued interest payable (Note 10)		59,545	50,290	59,119	39,970
Due to Operating Fund		—	—	132	213
Total Liabilities		4,916,075	4,520,567	4,829,448	4,454,197
Equity in capital assets		755	780	—	—
Appropriated surplus		1,498	1,405	—	600
Surplus (Note 16)		158,109	171,396	155,892	169,721
Total Liabilities, Equity and Surplus	$	5,076,437	4,694,148	4,985,340	4,624,508

SECRETARY-TREASURER

DEBT RESERVE FUND (Note 14)		OPERATING FUND	
2006	2005	2006	2005
—	—	—	—
—	—	—	—
85,538	82,129	—	—
—	—	—	—
473	621	251	229
—	—	—	—
6,458	3,137	3,758	2,555
—	—	755	780
—	—	132	213
92,469	85,887	4,896	3,777
—	—	—	—
—	—	—	—
92,469	85,883	—	—
—	—	—	—
—	3	425	317
—	—	—	—
92,469	85,886	425	317
—	—	755	780
—	—	1,498	805
—	—	2,218	1,875
92,469	85,886	4,896	3,777

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF REVENUE, EXPENDITURE AND SURPLUS

YEARS ENDING DECEMBER 31, 2006 AND 2005

THOUSANDS OF DOLLARS

		CONSOLIDATED		DEBT FUND	
		2006	2005	2006	2005
REVENUE					
Interest from loans to clients	$	271,051	256,067	271,051	256,067
Basic rate income		65,326	77,637	60,941	73,721
Management fees		1,306	1,568	—	—
Recoveries from new issues		429	429	—	—
Spending levy		161	161	—	—
Total Revenue		338,273	337,442	331,992	331,788
EXPENDITURE					
Interest on long-term debt		233,118	243,751	233,118	243,751
Interest on bank and short-term indebtedness		12,606	8,919	12,606	8,919
Amortization of issue costs and other		10,642	5,544	10,642	5,544
Administration		1,913	2,178	219	373
Management fees		—	—	1,211	1,315
Accrual of investment income due to clients		6,912	4,335	2,922	4,713
Debt management and marketing		197	260	—	—
Total Expenditures		265,388	265,027	260,718	264,615
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR		72,885	72,415	71,274	67,173
Surplus, beginning of the year		171,596	336,941	169,721	335,432
Accrued allocation to clients (Note 5b)		—	(22,876)	—	(22,876)
Allocations to clients (Note 11)		(85,704)	(209,408)	(85,704)	(209,408)
Application to equity in capital assets		25	25	—	—
Application of appropriated surplus (appropriation of surplus)		(93)	(401)	600	(600)
Dividends paid		(600)	(600)	—	—
Surplus, end of the year	$	158,109	171,596	155,891	169,721

DEBT RESERVE FUND		OPERATING FUND	
2006	2005	2006	2005
—	—	—	—
4,112	3,805	274	111
—	—	2,602	2,567
—	—	429	429
—	—	161	140
4,112	3,805	3,466	3,247
—	—	—	—
—	—	—	—
—	—	—	—
—	—	1,694	1,805
86	82	—	—
3,990	3,662	—	—
36	61	161	200
4,112	3,805	1,855	2,005
—	—	1,611	1,242
—	—	1,875	1,509
—	—	—	—
—	—	—	—
—	—	25	25
—	—	(693)	(307)
—	—	(600)	(600)
—	—	2,218	1,875

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDING DECEMBER 31, 2006 AND 2005

THOUSANDS OF DOLLARS

	CONSOLIDATED		DEBT FUND	
	2006	2005	2006	2005
OPERATING ACTIVITIES				
Excess of revenue over expenditure for the year	$ 72,885	68,415	71,274	67,173
Non-cash items:				
Gain on disposals of investments	(1,678)	(8,581)	(1,265)	(7,451)
Accretion of discounts on investments	(23,827)	(26,969)	(22,736)	(26,100)
Amortization of issue costs and other	10,642	5,544	10,642	5,544
Accrual of investment income due to clients	6,911	8,375	2,921	4,713
Amortization on building	25	25	—	—
Changes in accrued interest and other receivables	(18,454)	9,949	(18,579)	10,169
Changes in accounts payable and accrued interest payable	19,255	438	19,149	651
Net cash provided by operating activities	65,759	57,196	61,406	54,499
INVESTING ACTIVITIES				
Investments sold or matured	748,906	1,310,636	449,073	856,712
Investments purchased	(904,485)	(1,354,297)	(602,746)	(701,078)
Net cash provided by (applied to) investing activities	(155,579)	(56,339)	(153,673)	155,634
FINANCING ACTIVITIES				
New debt issued	715,175	531,230	715,175	531,230
Debt retired	(297,260)	(459,385)	(297,260)	(459,385)
Cash repayments from clients	445,661	653,430	445,661	653,430
New loans to clients	(612,985)	(588,352)	(612,985)	(588,352)
Bank indebtedness and commercial paper issued	3,054,260	1,665,134	3,054,260	1,665,134
Bank indebtedness and commercial paper repaid	(3,063,457)	(1,745,436)	(3,063,457)	(1,745,436)
Issue costs and other	(7,972)	(1,416)	(7,972)	(1,416)
Changes in interfund balances	—	—	(81)	(99)
Contributions from clients for new loans	6,168	5,284	—	—
Contributions and earnings thereon refunded to clients	(3,572)	(4,662)	—	—
Allocation of surplus payments to clients (Note 11)	(85,704)	(209,488)	(85,704)	(209,488)
Allocation of sewer and water grant payments to clients	(5,146)	(6,208)	(5,146)	(6,208)
Allocation of investment under management to clients	(50,300)	(50,402)	(50,300)	(50,402)
Dividends paid	(600)	(600)	—	—
Net cash provided by (applied to) financing activities	94,268	(211,012)	92,191	(210,913)
Increase (decrease) in cash and cash equivalents	4,448	2,523	(76)	(780)
Cash and cash equivalents, beginning of the year	10,849	8,326	5,157	5,937
Cash and cash equivalents, end of the year	$ 15,297	10,849	5,081	5,157

SUPPLEMENTARY CASH FLOW INFORMATION (NOTE 12)

DEBT RESERVE FUND		OPERATING FUND	
2006	2005	2006	2005
—	—	1,611	1,242
(413)	(1,130)	—	—
(1,091)	(869)	—	—
—	—	—	—
3,690	3,462	—	—
—	—	25	25
148	(157)	(23)	(63)
(3)	—	109	(13)
2,631	1,506	1,722	1,191
299,833	453,924	—	—
(301,739)	(453,219)	—	—
(1,906)	705	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	81	99
6,168	5,284	—	—
(3,572)	(4,882)	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	(600)	(600)
2,596	402	(519)	(501)
3,321	2,613	1,203	690
3,137	524	2,555	1,865
6,458	3,137	3,758	2,555

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDING DECEMBER 31, 2006 AND DECEMBER 31, 2005

1. Significant accounting policies

a. Basis of presentation

The Municipal Finance Authority of British Columbia (the "Authority"), operates under the *Municipal Finance Authority Act* (the "Act") as a central borrowing agency for the financing of capital requirements of regional districts and their member municipalities, regional hospital districts and special purpose other municipal bodies (collectively the "clients"). The Authority issues its own securities and lends the proceeds to its clients on whose request the financing is undertaken. Obligations of the Authority are not obligations of the Province of British Columbia and are not guaranteed, directly or indirectly, by the Province.

The Authority may annually impose rates not exceeding prescribed amounts on all taxable land and improvements in the Province to meet the annual operating budget. Additional rates will be levied if the Board of Trustees is of the opinion that debt payments may not be recovered within a reasonable time under the loan agreements with its clients.

The accompanying financial statements reflect the capital financing and general operation of the Authority. The Authority also oversees the maintenance of pooled investment funds which are reported separately by the Authority.

The financial statements of the Authority have been prepared by management in accordance with Canadian generally accepted accounting principles. The Authority maintains its accounts according to the principles of fund accounting by which financial resources are segregated for specific activities or to attain certain objectives. The following funds are maintained within the Capital Financing funds:

OPERATING FUND

The Act provides for the establishment of an Operating Fund to meet the annual operating budget. In addition to the administration of the Capital Financing activities, the Operating Fund receives management fees from the Pooled Investment Funds and the short-term financing program and pays the cost of their operations.

DEBT FUND

The Authority's financing activities on behalf of its clients are recorded within the Debt Fund. As well, the Debt Fund is a repository for repayments from the clients under their loan agreements in advance of the Authority's requirements on its related indebtedness.

The debt fund also includes a short-term financing program to provide financing to local governments under section 9.1 of the *Municipal Finance Authority Act*. The Act was amended in 1992 to extend financing to other public institutions (as defined) in the Province of British Columbia.

The fund provides a revolving credit facility for its clients under two programs:

i) Interim Financing Program – for tax revenue anticipation, interim funding requirements and temporary financing of capital projects.

ii) Leasing Program – for funding the short-term leasing of capital assets.

DEBT RESERVE FUND

Under the Act, the Authority must establish a Debt Reserve Fund. Each client sharing in the proceeds of a securities issue is required to pay into the Debt Reserve Fund an amount equal to one-half the average annual installment of principal and interest in respect of its own borrowing, together with one-half the average annual installment of principal and interest as set out in the agreements entered into with the regional district by their borrowings; such amount is payable either in full or in an amount equal to 1% (2% for TransLink) of the principal amount borrowed with the balance secured by a non-interest-bearing demand note.

If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions shall be made from the Debt Reserve Fund.

b. Surplus

The surplus balance of the Debt Fund represents undistributed earnings on investments in excess of budgeted actuarial earnings and are due to clients once the debt is retired. The amount of surplus re-allocated to clients is disclosed in the Statements of Revenue, Expenditure and Surplus (see note 11).

The Authority may appropriate operating fund surpluses for future expenditures.

c. Revenue recognition

The annual operating levy is recognized as revenue in the Operating Fund when the rates have been set by the Authority in March of each year. It is collected on behalf of the Authority by the municipalities in the province and the Provincial Surveyor of Taxes and is payable to the Authority on August 1 each year.

d. Amortization of issue costs

Issue costs, including discounts and premiums, are amortized on a straight line basis over the lives of the securities to which they relate.

e. Investments

The investment purchasing and trading policy of the Authority is to match the maturity of its investment with the applicable obligation dates of its debt.

Securities purchased with the intention of holding them to maturity or until market conditions, such as a change in interest rates, provide a better investment opportunity are recorded at cost, adjusted for amortization of premiums and accretion of discounts on an effective-yield basis. Any gains and losses on the disposal of investment securities are recorded in the year of disposal.

Securities may be purchased for investment return and may be either shorter or longer term. Such securities are also recorded at cost, adjusted for amortization of premiums and accretion of discounts on an effective-yield basis. When the market value of trading securities declines below carrying value and such decline in value is considered other than temporary, these securities are written down to market. Write-downs to market and any gains and losses on the sale of these securities are recorded in the Statements of Revenue, Expenditure and Surplus in the year they occur.

f. Capital assets

Capital assets are stated at cost. Amortization of the building is provided on a straight-line basis over 40 years.

g. Financial instruments

The Authority periodically enters into certain financial contracts that may be considered hedging transactions. These transactions include forward interest rate contracts on behalf of clients and certain derivative investments where established cash flow streams are exchanged for a future cash payment upon contract maturity. The Authority does not conduct derivative trading or contracting for trading gain.

At the request of individual clients and only after all required political authorizations and borrowing documentations are in place, the Authority will negotiate with a financial institution to enter into a contract to fix the interest rate on a client's borrowing request at a specified future date. These actions by the Authority's clients are in consideration of either a re-financing risk regarding exposure to future interest rate fluctuations or a desire for budgetary certainty. Since the Authority does its debenture borrowing in the spring and fall, some clients' requests may occur outside of these dates causing them to have potential interest rate exposure if not hedged. The Authority cash settles the forward contract with the financial institution thereby completing the contract. At this point, the future payment obligations become that of the client and the contract no longer meets the criteria for hedge accounting.

As part of the sinking fund investment practices, the MFA may purchase derivative or cash flow annuity contracts with institutions whereby the MFA sells a cash flow stream of principal collections from a client or group of clients to an institution for a future lump sum principal amount. The MFA will enter into these contracts to achieve fixed yields to meet actuarial requirements or to aggregate cash flows which could not be effectively invested by the clients themselves due to the small amounts involved on individual transactions. Fair values of these instruments are determined using market prices for the underlying derivative instrument.

When derivative contracts are established, the Authority determines for each contract whether hedge accounting can be applied. Derivatives that qualify for hedge accounting are accounted for on an accrual basis. The Authority explicitly demonstrates that hedges are effective in order to continue accrual accounting. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold.

In 2005, the CICA issued new accounting standards comprising handbook sections 3855 (Financial Instruments – Recognition and Measurement), 3865 (Hedges), 1530 (Comprehensive Income), and 3251 (Equity), which will become effective for the Authority beginning January 1, 2007.

Financial assets will be classified as available for sale, held to maturity, held for trading or loans and receivables. Financial liabilities will be classified as held for trading or other.

The new standards require that all derivative instruments be recognized as either assets or liabilities and measured at their fair values. Changes in the fair value of hedging derivatives will be either offset in the Consolidated Statements of Revenue, Expenditures and Surplus against the changes in the fair value of the asset, liability or cashflow being hedged, or recorded in Equity.

The impact of adopting the new accounting standards on January 1, 2007 will be recognized in the opening surplus. Prior periods will not be restated.

h. Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of the financial statements include the assumption of an expected earnings rate on sinking funds, (5% up to and including Issue 88 and 4% on issues thereafter) which makes up a portion of the asset "Loans to clients" (see note 2).

i. Comparative figures

Certain 2005 comparative figures have been reclassified to conform to the financial statement presentation for the current year.

2. Loans to clients

Under the Act, each client sharing in the proceeds of a securities issue must pay over to the Authority such sums as are required to discharge its obligations to the Authority in respect to such securities issue. If the scheduled payments provided for under the loan agreement are not sufficient to meet the Authority's obligations in respect of that securities issue, the deficiency is a liability of the client to the Authority.

The aggregate principal payments recoverable from the clients in each of the next five years (excluding principal payments suspended as outlined below) are as follows:

THOUSANDS OF DOLLARS	
2007	$ 198,638
2008	191,253
2009	179,754
2010	179,846
2011	165,016

When the Authority, under Section 12 of the Act and with the approval of the Inspector of Municipalities, has determined that the amount of the assets in the sinking fund together with the anticipated earnings for that fund is greater than the amount which will be required to repay the debt or discharge the obligation and has declared that there is an anticipated surplus in the fund of a specified amount, the scheduled future payments of both principal and interest from the clients under the related loan agreements are suspended.

3. Short-term loans to clients

The short-term loans receivable represents loans for the following purposes:

THOUSANDS OF DOLLARS		
Tax revenue anticipation	$ 120	277
Temporary financing of capital projects	58,198	91,148
Short-term capital borrowing	2,834	3,861
Short-term leases of capital equipment	48,017	48,487
Total short-term loans	**$ 109,169**	**143,773**

Short-term leases of capital equipment bear interest at a rate of prime minus 1% while all other short-term loans are charged interest based on the daily 30-day Canadian Dollar Offered Rate (CDOR) plus 0.375%. Short-term leases on capital equipment carry a maximum term of five years while other short-term loans can range in length from nine months to a maximum of five years.

4. Investments, net of holdings of the Authority

Investments consist of securities of:

THOUSANDS OF DOLLARS	PAR VALUE	BOOK VALUE	BOOK VALUE
DEBT FUND			
Government of Canada	$ 38,112	35,047	69,179
Provincial governments	653,256	494,384	476,198
Chartered banks	560,352	553,547	414,145
Credit Unions in the Province of BC	125,300	125,300	10,000
Regional and municipal governments	296	295	160
	1,377,316	1,208,573	969,682
The Authority	6,049	6,136	19,610
	1,383,365	1,214,709	989,292
DEBT RESERVE FUND			
Government of Canada	15,519	11,567	12,446
Provincial governments	299	263	—
Chartered banks	73,760	73,708	66,682
Credit Unions in the Province of BC	—	—	3,000
	89,578	85,538	82,128
Total, all funds	1,472,943	1,300,247	1,071,420
Less: investments held by the Authority	6,049	6,136	19,610
Consolidated total	$ 1,466,894	1,294,111	1,051,810

Investments in Government of Canada, Provincial governments, and Chartered banks may be direct or guaranteed.

The Authority may invest monies in its own securities maturing not later than the securities for which the sinking fund account was created. The $6,136,000 (2005 – $19,610,000) in investments held by the Authority represents the Authority's own debentures purchased from the market.

Investments in Municipal Finance Authority of British Columbia debentures have been offset against the related debt in the consolidated statements.

5. Investments under management

In 2003, the Greater Vancouver Water District borrowed $200 million and entered into an agreement whereby the Authority would manage a portion of the cash proceeds from that borrowing as investments under management. These investments consist of:

THOUSANDS OF DOLLARS		PAR VALUE	BOOK VALUE	BOOK VALUE
Provincial governments	$	58,745	59,521	93,264
Government of Canada		—	—	8,987
		58,745	59,521	102,161
The Authority		—	—	4,353
	$	58,745	59,521	106,514
Cash			20	54
Accrued interest and other			1,026	1,742
Total Assets			$ 60,567	108,310

It is the intent of the Greater Vancouver Water District to draw down on these holdings as required and it is anticipated that principal and interest earned will be completely disbursed by September 2007.

6. Capital assets

Capital assets represent the net book value of the land and building out of which the Authority operates. The land and building, purchased at an original cost of $998,000, is reflected in the Operating Fund net of accumulated amortization of the building of $242,481 (2005 – $218,000).

7. Long-term debt

The aggregate long-term debt maturities in each of the next five years are as follows (including provision for early calls by the Authority and redemptions at the option of the bondholder).

THOUSANDS OF DOLLARS	
2007	$ 355,261
2008	395,693
2009	772,130
2010	207,704
2011	547,075

Since the clients' bylaw term (up to 30 years) does not always coincide with the Authority's debenture term (usually 10 years), many clients' borrowing requests are expected to be refinanced. Scheduled refinancing over the next five years and the current average interest rates on the refinanced amounts, are as follows:

THOUSANDS OF DOLLARS	REFINANCING	EXISTING INTEREST RATE
2007	$ 135,660	5.98%
2008	184,000	5.50
2009	378,100	6.13
2010	37,000	4.93
2011	280,000	5.90

8. Bank and short-term indebtedness

The Authority has an agreement under which a chartered bank provides a revolving credit facility of up to $300,000,000 subject to repayment within 30 days following demand by the bank. As at year end, the interest rate on the line of credit was 4.54% (2005 – 3.56%).

The Authority operates a commercial paper facility which allows for the issuance of short-term notes in the name of the Authority up to 365 days in duration and requires a fully backed standby line of credit from one or more chartered banks. As at year end, the interest rate on commercial paper issued ranged from 4.15% to 4.26% (2005 – 2.79% to 3.19%).

The Authority's clients may choose loan terms from five to 30 years. Since most debenture debt issued to finance these loans matures in 10 years, the debt issues must be refinanced. Taking economic and market conditions as well as sinking fund positions into account, the decision to issue new debt or use the Authority's short-term financing program is made. Included in bank and short-term indebtedness at year end are issues refinanced through the short-term financing program, including accrued interest, of $150,237,730 (2005 – $125,161,619).

9. Due to clients

Included in amounts due to clients is $92,469,157 (2005 – $85,882,911) which will be repaid to clients when they have made the final payment under their respective loan agreements. However, where a municipality has discharged its obligation to a regional district with respect to a securities issue, the Authority may repay to the regional district for the credit of the municipality a portion of the money which is an obligation to the regional district and the money so paid shall be applied to reduce that obligation.

Included in the amounts due to clients are sewer and water facilities assistance grant monies payable to regional districts and municipalities. Prior to March 2002, certain regional districts and municipalities with sewer and/or water facility loans outstanding would receive semi-annual grant funding from the Province of British Columbia to offset a portion of annual debt servicing costs incurred. Between March 2002 and September 2004, the Authority received lump sum payments totaling $42,186,418 from the Province for application towards these loans outstanding. The Authority is responsible for distributing these payments to clients on a semi-annual basis as related principal and interest payments are received from clients.

The Authority has estimated that total distributions of these fund out to the expiry dates of the applicable sewer and/or water loans to be $6,904,903 (2005 – $11,895,370). The estimated payments over the next five years are as follows:

THOUSANDS OF DOLLARS	
2007	$ 2,479
2008	1,180
2009	763
2010	394
2011	394
Thereafter	1,695
Total	**$ 6,905**

As at year end the Authority has recognized a liability with a present value of $5,944,217 (2005 – $10,555,512) and has invested the corresponding funds in securities to mature at the required value of $6,904,903 (2005 – $11,895,370)

10. Accounts payable and accrued interest payable

Accounts payable and accrued interest payable includes the difference between the unscheduled early payout (present valued) by various clients and the book value of their liabilities to the Authority. These early payments by clients are based on the cost to the Authority of purchasing investments that will exactly match the principal and interest payments the client would have otherwise made (based on the present value of the yield curve at the time of the early payment).

11. Allocations to clients

This amount is the total of surpluses earned (excess earnings) by the investments relating to specific debenture issues that have matured and were distributed back to the clients for which the financing was undertaken. Accruals of investment income due to clients, allocation of net earnings to clients which applies to the Debt Reserve Fund, and the Sewer and Water grant monies in the Debt Fund are shown separately. During the year, the following surplus was allocated:

THOUSANDS OF DOLLARS		
Cash surplus repayments	$ 13,087	9,154
Future invoice payments forgiven	10,044	4,859
Actuarial earnings recognized	62,573	196,395
	$ 85,704	209,408

Included in the 2006 Actuarial earnings recognized is $28,478,867 (2005 – $25,218,411) of accrued earnings calculated from the last principal payment dates to December 31, 2006.

12. Supplemental cash flow information

During the year, the Authority received the following cash payments:

THOUSANDS OF DOLLARS		
Interest from clients – long-term debt	$ 267,067	265,175
Interest from clients – short-term debt	6,999	9,599
Interest from investments	25,973	33,769

During the year the Authority made the following cash payments:

THOUSANDS OF DOLLARS		
Interest on long-term debt	$ 231,407	253,243
Interest on short-term indebtedness	12,731	8,918

The amounts shown on the Statements of Revenue, Expenditure and Surplus are recorded on an accrual basis and may differ from the information presented above on a cash basis

13. Financial instruments

a. Interest rate risk

Upon maturity of certain debt issues, the Authority may refinance any remaining loans receivable balances associated with those debt issues through the Authority's short-term financing program. At year end, the Authority had $150,237,730 (2005 – $125,161,619) of these loans outstanding subject to floating interest rates. As at December 31, 2006 this floating rate was 4.590% (2005 – 3.610%) while the related relending of these funds to its clients ranged from 4.430% to 7.25% (2005 – 4.000% to 6.500%). During the year, interest in the amount of $7,196,526 (2005 – $3,785,319) was paid to the short-term financing program on these loans.

b. Derivatives

The Authority has entered into certain financial agreements to hedge investment yields with third-party financial institutions whereby the Authority will make periodic principal payments in exchange for certain future cash receipts. At year end, the future value of these contracts, due to the Authority, is $311,542,030 (2005 – $313,167,703) while related principal payments by the Authority towards those agreements are $151,219,255 (2005 – $132,301,351).

In 2006, the Authority recorded $12,039,990 as deferred costs in other assets and a related liability representing the fair value of derivative instruments for which hedge accounting was discontinued. The fair value of these instruments is deferred on initial recognition to be amortized beginning on the forward start date of the swap to which they relate. The change in fair value of these derivative instruments from the recognition date to December 31, 2006 of $5,478,470 has been recorded in the Statements of Revenue, Expenditure and Surplus.

c. Fair value

The carrying values of accrued interest and other receivables, demand notes receivable, accounts payable and accrued interest payable, and bank and short-term indebtedness approximate their fair value due to the relatively short periods to maturity of the instruments.

The fair market values of other financial assets and liabilities included in the Consolidated Balance Sheets at carrying amount are as follows:

THOUSANDS OF DOLLARS	CARRYING AMOUNT	FAIR MARKET VALUE	CARRYING AMOUNT	FAIR MARKET VALUE
Investments				
Debt Fund	$ 1,214,709	1,226,195	989,292	1,007,231
Debt Reserve Fund	85,538	85,326	82,128	82,569
Under management	60,567	60,284	108,310	107,583
Loans to clients	3,464,840	3,548,847	3,292,912	3,363,344
Short-term loans to clients	109,169	109,169	143,773	143,773
Long-term debt	4,443,472	4,628,884	4,025,557	4,284,691
Due to clients				
Investments under management	60,567	60,284	108,310	107,583

Fair values were estimated as follows:

- Investments – based on quoted market values.
- Long-term debt – prices based on yield to maturity on first call date using appropriate spreads over Canada Bonds as a benchmark.
- Loans to clients – values estimated using prices equivalent to the related long-term debt for each issuance.

14. Debt Reserve Fund

The Debt Reserve Fund holds assets as security for debenture payments to bondholders. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund.

Included in the fund are Demand Notes receivable from clients $194,251,211 (2005 – $186,817,135) which are entered into upon the Authority lending debenture proceeds to its clients and are callable on demand to meet Authority obligations. Once clients have made the final payment under their respective loan agreements the Demand notes will be extinguished. For financial statement presentation these Demand Notes receivable have been classified as an offset to Due to clients because of their contingent nature. None of these notes have ever been called in the history of the Authority.

If the Board of Trustees of the Authority are of the opinion that the payments made from the Debt Reserve Fund may not be recovered under the terms of the loan agreements within a reasonable time, they may levy or impose upon substantially all taxable land and improvements in the Province of BC rates sufficient to maintain the Debt Reserve Fund at a level not exceeding the amount which would have been in the fund had no such payments been made. Further, the Board of Trustees must impose such rates when the balance in the fund is less than 50 percent of the amount that would have been in the fund had no such payments been made.

CAPITAL FINANCING

DEBT FUND–SCHEDULE OF LONG-TERM DEBT

DECEMBER 31, 2006 AND 2005

THOUSANDS OF DOLLARS

ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
PAYABLE IN CANADIAN DOLLARS:				
50:CL	1991	May 6, 2006	10.250	40,000
55:CP	1992	May 12, 2011	8.750	50,000
63:XX	2005	December 1, 2010	4.000	121,000
64:CS	1996,2007	September 25, 2006	7.250	121,000
65:CT	1997	April 24, 2007	6.750	125,000
66:CU	1997	November 5, 2006	5.625	75,000
66:CU	1997	November 5, 2007	5.625	40,000
67	1997	November 5, 2008	5.850	75,000
68	1998	March 24, 2008	5.500	69,645
68:CV	1998	March 24, 2008	5.500	336,000
70:CW	1999,2000	June 1, 2009	5.250	640,000
74:CX	2001	June 1, 2011	5.900	400,000
76:CY	2004	November 8, 2006	3.000	19,000
77	2002	June 1, 2006	5.375 - 5.625	20,000
78:CZ	2002,2003	December 1, 2032	5.750	340,000
80	2003	October 3, 2008 - 2053	3.400 - 4.850	130,794
80:DA	2003	December 3, 2053	4.900	288,000
81:DB	2004	April 22, 2006 - 2053	2.900 - 4.950	40,000
85:DC	2004	December 2, 2014	4.800	500,000
86:DD	2004	December 2, 2024	5.250	50,000
87	2005	October 31, 2007	3.000	19,594
88	2004	October 1, 2009	4.250	250
91	2005	March 06, 2010	3.250	225
92:DF	2005	April 6, 2006 - April 6, 2055	3.000 - 4.750	61,800
93:DG	2006	April 6, 2026	4.975	700,000
95:DH	2006	October 13, 2011	4.150	167,000
96:DI	2005	April 2, 2026	4.500	50,000
97:DL	2006	April 19, 2016	4.650	175,000
98	2006	May 15, 2011	4.000	175
801	2001	September 1, 2006	5.470	75
802	2002	February 16, 2007	4.630	60
			Carried Forward	4,330,968

2006	2005	
LONG-TERM OUTSTANDING	LONG-TERM OUTSTANDING	REFERENCES
—	35.960	(1)
50.000	50.000	(1)
121.000	121.000	(1)
—	127.000	(1)
125.000	125.000	(1)
—	70.116	(1)
60.000	60.000	(1)
—	15.000	(1) (2)
12.920	25.179	(1)
336.000	336.000	(1)
640.000	646.000	(1)
491.800	491.800	(1)
—	19.500	(1)
7.000	14.000	(1)
340.000	340.000	(1)
101.400	118.700	(1)
299.300	299.300	(1)
39.200	35.100	(1)
160.000	160.000	(1)
50.000	50.000	(1)
19.596	19.596	(1)
200	200	(3)
220	220	(1)
59.300	61.400	(1)
112.689	176.541	(1)
167.000	167.000	(1)
50.000	50.000	(1)
715.000	—	(1)
175	—	(3)
—	73	(3)
60	60	(3)
3.964.050	3.589.767	

CONTINUED ON NEXT PAGE

DEBT FUND–
SCHEDULE OF LONG-TERM DEBT (CONTINUED)

DECEMBER 31, 2006 AND 2005

THOUSANDS OF DOLLARS

ISSUE/SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
PAYABLE IN CANADIAN DOLLARS:			Brought Forward	$ 4,390,966
607 to 628	1999	March 10, 2007 - November 30, 2023	6.0000 - 11.330	297,929
703 to 715	1999	August 8, 2006 - July 21, 2010	5.7410 - 9.610	418,830
903	1996	January 9, 2012	9.500	33,000
912	1996	January 9, 2012	9.500	24,000
			Payable in Canadian Dollars	5,164,725
PAYABLE IN CANADIAN DOLLARS – ISSUED THROUGH FEDERATION OF CANADIAN MUNICIPALITIES:				
1	2003	March 14, 2016	3.490	1,455
2	2003	March 31, 2013	3.710	2,100
3	2004	June 11, 2014	3.182	20,000
4	2005	June 6, 2015	2.900	11,310
			Payable in Canadian Dollars	34,865
Total per Debt Fund				$ 5,199,590
Less amounts held as investments by the Authority				
Net debt due to bondholders				

2006	2005	
LONG-TERM OUTSTANDING	LONG-TERM OUTSTANDING	REFERENCES
3.964.066	3.509.767	
195.735	202.678	(1) (4)
193.059	222.084	(1) (5)
33.000	33.000	(1) (6)
24.000	24.000	(1) (6)
4.409.860	3.991.529	
832	1.078	(1) (7)
1.470	1.860	(1) (7)
20.000	20.000	(1) (7)
11.310	11.310	(1) (7)
33.612	34.028	
4.443.472	4.025.557	
6.136	79.610	
4.437.336	4.005.947	

DEBT FUND–
REFERENCES TO SCHEDULE OF LONG-TERM DEBT

DECEMBER 31, 2006 AND 2005

1 Non-callable prior to maturity.

2 Debt issued internally through the Authority's investment holdings.

3 Five-year Community Bond.

4 Debt issues relating to the Regional Hospital Districts, transferred from Province of British Columbia to MFA under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province. Debt comprised of 63 debenture issues averaging $3.106 million each. Individual issue detail is not shown.

5 Debt issues relating to TransLink, transferred from Province of British Columbia to MFA under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province. Debt comprised of 5 debenture issues averaging $38.612 million each. Individual issue detail is not shown.

6 Debenture issues transferred from Province of British Columbia to MFA on April 1, 1996. The debt outstanding remains in the name of the Province.

7 Debentures issued through the Federation Canadian of Municipalities and administered by the MFA.

CAPITAL FINANCING

SCHEDULE OF LOANS TO CLIENTS 2006

UNAUDITED—OUTSTANDING AT DECEMBER 31, 2006

THOUSANDS OF DOLLARS (EXCEPT PER CAPITA)

		2006					
	PRINCIPAL OUTSTANDING DEC. 31, 2005	NEW LOANS ISSUED	PRINCIPAL REPAID	**PRINCIPAL OUTSTANDING DEC. 31, 2006**	PER CAPITA	FUTURE PRINCIPAL TO BE COLLECTED (Note)	FUTURE PRINCIPAL PER CAPITA
REGIONAL DISTRICTS							
Alberni-Clayoquot	$ 20,254	5,063	1,253	**24,064**	716	$ 14,484	431
Bulkley-Nechako	6,175	3,540	784	**8,931**	196	5,376	118
Capital	297,081	27,142	27,395	**296,828**	882	178,660	531
Cariboo	35,951	4,564	3,327	**37,188**	505	22,383	304
Central Coast	323	—	13	**310**	71	187	43
Central Kootenay	32,982	5,036	2,358	**34,760**	560	20,922	337
Central Okanagan	124,801	2,892	8,289	**119,404**	771	71,869	464
Columbia Shuswap	40,291	2,685	1,829	**41,147**	767	24,766	462
Comox-Strathcona	88,371	14,384	11,525	**91,230**	859	54,911	517
Cowichan Valley	26,390	3,100	1,882	**27,608**	356	16,617	214
East Kootenay	35,294	13,487	5,073	**43,708**	687	26,308	414
Fraser-Fort George	127,863	7,511	6,095	**129,299**	1,209	77,825	728
Fraser Valley	81,668	33,344	10,577	**104,435**	427	62,859	257
Greater Vancouver	857,572	91,300	84,933	**863,939**	405	555,007	260
Kitimat-Stikine	13,600	—	1,207	**12,393**	264	7,459	159
Kootenay Boundary	20,079	—	2,260	**17,819**	527	10,725	317
Mount Waddington	5,295	500	439	**5,356**	353	3,224	213
Nanaimo	45,702	24,022	7,094	**62,630**	457	37,697	275
North Okanagan	100,125	2,812	6,723	**96,215**	1,228	57,911	739
Northern Rockies	7,276	—	500	**6,776**	1,039	4,078	625
Okanagan-Similkameen	42,326	20,231	2,864	**59,693**	739	35,929	445
Peace River	59,876	844	4,710	**56,010**	919	33,712	553
Powell River	11,747	—	1,213	**10,534**	468	6,340	282
Skeena-Queen Charlotte	12,429	5,285	1,356	**16,358**	590	9,846	355
Squamish-Lillooet	23,664	7,832	2,269	**29,227**	787	17,592	474
Sunshine Coast	31,157	7,806	1,822	**37,141**	1,187	22,355	715
Thompson-Nicola	71,245	33,381	7,140	**97,486**	742	58,676	447
OTHER							
District of Campbell River	174	—	113	**61**	2	37	1
E-COMM	125,587	—	6,836	**118,751**	49	109,648	45
CREST	14,428	—	967	**13,461**	40	8,102	24
TransLink	904,065	150,000	51,987	**1,002,078**	470	607,273	285
	$ 3,262,912	466,761	264,833	**3,464,840**	624	$ 2,162,778	514

Note: The Authority collects principal repayments from clients under a sinking fund methodology. Clients make annual principal repayments on their obligations and the Authority invests those funds to retire the associated debenture at maturity. The difference between the Principal Outstanding of $3,464,840,000 and the Future Principal to be Collected of $2,162,778,000 represents future sinking fund earnings by the Authority.

TEN YEAR REVIEW–CONSOLIDATED FUNDS

		2006	2005	2004	2003
ASSETS					
Loans to clients	$	3,464,840	3,282,912	3,245,464	3,190,709
Short term loans to clients		109,169	143,773	229,579	125,867
Investments, net of holdings of the Authority		1,294,111	1,051,810	1,122,924	1,060,343
Investments under management		60,567	108,310	154,210	174,715
Investments in sinking funds		—	—	—	—
Sinking fund assets in excess of sinking debt		—	—	—	—
Accrued interest and other receivables		109,771	91,311	101,266	90,371
Deferred issue costs and other		21,927	24,597	28,729	32,986
Cash and cash equivalents		15,297	10,845	8,326	8,770
Capital assets		755	780	805	830
Total Assets	$	5,076,437	4,694,348	4,891,300	4,684,591
LIABILITIES, EQUITY AND SURPLUS					
Long-term debt	$	4,437,336	4,005,947	3,910,640	3,748,257
Bank and short-term indebtedness		260,189	269,386	349,689	213,426
Due to clients		98,438	96,634	98,567	104,395
Due to clients – investments under management		60,567	108,310	154,210	174,715
Accounts payable and accrued interest payable		59,545	40,290	39,944	44,825
Due to Forest Renewal BC		—	—	—	—
Total Liabilities		4,916,075	4,520,567	4,553,050	4,285,618
Equity in capital assets		755	780	805	830
Appropriated surplus		1,498	1,405	504	788
Surplus		158,109	171,596	336,941	397,355
Total Liabilities, Equity and Surplus	$	5,076,437	4,694,348	4,891,300	4,684,591
REVENUE					
Interest from loans to clients	$	271,051	258,067	253,649	258,180
Investment income		65,326	77,633	73,261	70,564
Management fees		1,306	1,169	742	573
Recoveries from new issues		429	429	429	429
Operating levy		161	140	119	108
Total Revenue		338,273	337,442	328,200	329,894
EXPENDITURE					
Interest on long-term debt		233,118	243,751	235,639	243,145
Interest on bank and short-term indebtedness		12,606	8,919	10,231	7,869
Amortization of issue costs and other		10,642	5,544	5,451	5,365
Administrative		1,913	2,178	2,998	2,933
Debt management and marketing		197	260	241	239
Allocation of investment income to clients		6,912	6,375	8,337	4,193
Total Expenditure		265,388	266,027	262,897	263,744
Excess of revenue over expenditure for the year		72,885	68,415	65,303	66,150
Surplus, beginning of the year		171,596	336,941	397,355	415,308
Accrued allowance to clients		—	(22,870)	—	—
Surplus on debt issues from Province		—	—	—	—
Allocations to clients		(85,704)	(209,408)	(125,426)	(83,715)
Application of equity to capital assets		25	25	25	25
Application of appropriated surplus (appropriation of surplus)		(93)	(901)	284	187
Dividends paid		(600)	(600)	(600)	(600)
Surplus, end of the year	$	158,109	171,596	336,941	397,355

2002	2001	2000	1999	1998	1997
2.935.516	2.832.474	2.714.849	2.702.045	1.988.013	1.756.368
135.509	103.348	71.950	55.676	35.013	30.872
1.140.930	1.139.714	1.059.689	990.838	652.219	580.136
—	—	—	—	—	—
3.265	10.265	10.265	27.892	51.231	83.895
15.601	26.780	25.727	24.587	23.582	22.624
78.811	79.075	94.248	74.143	44.714	34.964
35.749	35.721	42.863	29.506	15.774	19.779
8.309	7.157	7.235	14.450	12.540	3.975
854	879	904	329	954	979
4.354.544	4.235.413	4.027.730	3.919.976	2.824.040	2.535.594
3.580.977	3.385.891	3.235.022	3.123.250	2.206.060	1.947.612
196.907	263.505	147.432	129.663	71.461	52.428
116.199	80.792	89.709	94.924	80.316	79.239
—	—	—	—	—	—
44.324	53.374	63.560	67.494	41.234	36.977
—	—	10.082	10.116	10.142	—
3.937.407	3.783.562	3.545.805	3.425.483	2.409.213	2.116.256
854	879	904	929	486	357
975	699	—	—	—	—
415.308	450.283	481.021	493.558	414.341	418.981
4.354.544	4.235.413	4.027.730	3.919.976	2.824.040	2.535.594
255.427	252.663	260.670	245.616	188.690	184.719
75.631	89.121	69.317	61.383	56.596	79.605
929	702	525	675	720	710
429	429	429	434	255	255
103	101	100	101	101	101
332.519	343.016	331.041	308.211	246.362	265.390
233.717	236.510	247.387	256.376	187.713	187.507
6.485	8.617	8.858	5.564	3.208	1.470
4.875	5.160	7.832	5.593	5.037	4.668
2.423	1.639	1.515	1.417	1.361	1.294
182	219	267	372	186	176
5.890	5.410	3.404	3.119	7.644	5.368
253.572	257.575	269.243	272.461	205.149	200.503
78.947	85.441	61.798	35.750	41.213	64.887
460.284	481.021	493.558	414.341	418.981	470.833
—	—	—	—	—	—
—	—	—	63.814	—	—
(113.322)	(115.156)	(74.110)	(19.604)	(45.499)	(116.407)
25	25	25	25	25	25
(276)	(699)	—	(518)	(129)	(107)
(350)	(350)	(250)	(250)	(250)	(250)
415.308	450.283	481.021	493.558	414.341	418.981

CAPITAL FINANCING

BOND ISSUES

Canadian Dollar Bonds Issued in Canada

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2006 $(000)	INTEREST
55/CP	8.750% Debentures due May 12, 2013	May 12, 1993	50,000	50,000	Semi-annual May 12 November 12
63/DK	4.00% Debentures due December 1, 2005	December 1, 2005	121,000	121,000	Semi-annual June 1 December 1
65/CT	6.75% Debentures due April 24, 2007	April 24, 1997	125,000	125,000	Semi-annual October 24 April 24
66/CU	5.625% Debentures	November 5, 1997 due November 5, 2007	60,000	60,000	Same as above
68/CV	5.500% Serial Debentures due March 24, 2017	March 24, 1998	49,642	12,926	Semi-annual March 24 September 24
	5.500% Debentures due March 24, 2008	March 24, 1998	336,000	336,000	Same as above
70/CW	5.25% Debentures due June 1, 2009	March 24, 1999	646,000	646,000	Semi-annual June 1 December 1
74/CX	5.90% Debentures due June 1, 2011	April 4, 2001	491,800	491,800	Semi-annual June 1 December 1
77	5.375 - 5.625% Serial Debentures due June 1, 2007	April 9, 2002	35,000	7,000	Semi-annual June 1 December 1
78/CZ	5.25% Debentures due December 3, 2012	October 3, 2002	340,000	340,000	Semi-annual June 3 December 3
80/CV	3.950 - 4.650% Serial Debentures due October 3, 2008 - 2012	October 3, 2003	138,700	101,400	Semi-annual April 3 October 3
80/DA	4.900% Debentures due December 3, 2013	December 3, 2003	288,300	288,300	Semi-annual April 3 October 3

DENOMINATIONS	CALL	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	2007 - 12,926	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	2007 - 7,000	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	2007 - 17,300 2008 - 17,300 2009 - 16,700 2010 - 16,700 2011 - 16,700 Thereafter - 16,700	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	

Canadian Dollar Bonds Issued in Canada

ISSUE/SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2006 $(000)	INTEREST
81/DB	2.250 - 4.950% Serial Debentures due April 22, 2007 - 2013	April 22, 2004	40,000	30,200	Semi-annual April 22 October 22
85/DC	4.900% Debentures due December 2, 2014	October 25, 2004	180,000	180,000	Semi-annual June 2 December 2
86/DD	5.350% Debentures due December 2, 2024	October 25, 2004	50,000	50,000	Semi-annual June 2 December 2
87	3.550% Debentures due October 30, 2007	October 30, 2005	19,596	19,596	Semi-annual April 30 October 30
88	4.710% Debentures due October 1, 2009	October 1, 2004	200	200	Annual October 1
91	4.710% Debentures due October 1, 2009	October 1, 2004	220	220	Annual October 1
92/DF	3.100 - 4.700% Serial Debentures due April 6, 2007 - 2015	April 6, 2005	63,400	59,300	Semi-annual April 6 October 6
93/DG	4.978% Amortizer Debentures due April 6, 2025	April 6, 2005	118,300	112,889	Semi-annual April 6 October 6
95/DH	4.150% Debentures due October 13, 2015	October 13, 2005	167,000	167,000	Semi-annual April 13 October 13
96/DI	4.600% Debentures due April 2, 2026	October 13, 2005	50,000	50,000	Semi-annual April 2 October 2
97/DL	4.650% Debentures due April 19, 2016	April 19, 2006	715,000	715,000	Semi-annual April 2 October 2
98	4.000% Debentures due May 15, 2011	May 15, 2006	175	175	Annual May 15
802	4.630% Debentures due February 16, 2007	February 16, 2002	60	60	Annual February 16

DENOMINATIONS	CALL	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Registered at CDS Book entry only	Non-callable	2007 - 4,900 2008 - 4,900 2009 - 4,900 2010 - 4,250 2011 - 4,250 Thereafter - 7,000	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS Book entry only	Non-callable	2007 - 4,100 2008 - 4,100 2009 - 4,100 2010 - 4,100 2011 - 4,050 Thereafter - 38,850	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
CDS-Canadian Depository for Securities Limited				CIBC Mellon Trust Company 1600- 1066 West Hastings St. Vancouver, BC V6E 3X1 320 Bay St. Toronto, ON M5H 4A6

Auditors' Report

TO THE UNITHOLDERS OF THE MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA POOLED INVESTMENT FUNDS

We have audited the statements of net assets of the Money Market Fund, the Intermediate Fund and the Bond Fund of the Municipal Finance Authority of British Columbia (the "Authority") as at December 31, 2006 and 2005, the statements of operations and unitholders' equity and changes in net assets of each of these Funds for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of these Funds of the Authority as at December 31, 2006 and 2005, and the results of their operations and the changes in their net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Victoria, British Columbia, Canada
January 25, 2007

STATEMENTS OF NET ASSETS

DECEMBER 31, 2006 AND 2005

Thousands of Dollars

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005
ASSETS								
Cash	$ 25	30	38	29	14	44	77	103
Unitholder receivables	310	—	—	153	—	302	310	455
Receivable for investments sold	—	—	—	—	101	—	101	—
Investments (Schedules 1, 2 and 3)	1,105,220	1,140,315	202,908	167,801	161,198	201,440	1,469,326	1,509,556
	1,105,555	1,140,345	202,946	167,983	161,313	201,786	1,469,814	1,510,114
LIABILITIES								
Accrued management fees	143	146	34	30	28	34	205	210
Unitholder payable	321	1,204	—	140	102	74	423	1,418
	464	1,350	34	170	130	108	628	1,628
Net Assets and Unitholders' Equity	$ 1,105,091	1,139,995	202,912	167,813	161,183	201,687	1,469,186	1,508,486

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

SECRETARY-TREASURER

STATEMENTS OF OPERATIONS AND UNITHOLDERS' EQUITY

YEARS ENDING DECEMBER 31, 2006 AND 2005

Thousands of Dollars

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005
INVESTMENT INCOME								
Interest income	$ 45.264	28.331	8.784	3.645	10.732	5.389	64.780	40.665
Less: management fees	1.669	1.559	347	273	371	434	2.387	2.266
	43.595	26.772	8.437	3.372	10.361	4.955	62.393	38.399
LOSS ON INVESTMENTS								
Net realized loss	—	—	(1.106)	(125)	(2.255)	(1.349)	(3.361)	(1.474)
Net unrealized loss	—	—	(579)	(752)	(1.407)	(1.719)	(1.986)	(2.471)
Net loss on investments	—	—	(1.685)	(877)	(3.662)	(3.068)	(5.347)	(3.945)
Net Earnings Distributed	$ 43.595	26.772	6.752	2.795	6.699	1.887	57.046	34.454
NET ASSETS AND UNITHOLDERS' EQUITY								
Units outstanding, beginning of the year	$ 1.143.995	896.954	167.814	112.934	201.687	191.675	1.513.496	1.200.563
Units subscribed	1.363.898	1.502.747	99.497	120.042	10.944	75.794	1.474.339	1.698.583
Distributions reinvested	43.595	26.772	6.752	2.795	6.699	1.887	57.046	34.454
Units redeemed	(1.446.397)	(1.282.478)	(71.151)	(67.957)	(58.147)	(70.673)	(1.575.695)	(1.420.908)
Units Outstanding, end of the year	$ 1.105.091	1.143.995	202.912	167.814	161.183	201.687	1.469.186	1.513.496

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDING DECEMBER 31, 2006 AND 2005

Thousands of Dollars

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005
Net assets, beginning of the year	$ 1,143,995	996,954	167,814	112,034	201,687	191,875	1,513,496	1,300,863
Changes during the year due to:								
Operations:								
Net investment income	43,595	26,772	8,437	3,672	10,361	7,955	62,393	38,399
Net loss on investments	—	—	(1,685)	(677)	(3,662)	(3,064)	(5,347)	(3,941)
	43,595	26,772	6,752	2,795	6,699	4,891	57,046	34,458
Unit transactions:								
Subscriptions	1,363,898	1,560,714	99,497	126,042	10,944	75,794	1,474,339	1,688,583
Redemptions	(1,446,397)	(1,282,476)	(71,151)	(67,057)	(58,147)	(70,873)	(1,575,695)	(1,420,406)
	(82,499)	220,309	28,346	52,985	(47,203)	4,921	(101,356)	278,175
Distributions to unitholders:								
Investment income	(43,595)	(26,772)	(8,437)	(3,672)	(10,361)	(7,955)	(62,393)	(38,399)
Loss on investments	—	—	1,685	677	3,662	3,064	5,347	3,941
Distributions reinvested	43,595	26,772	6,752	2,795	6,699	4,891	57,046	34,458
	—	—	—	—	—	—	—	—
Net Assets, end of the year	$ 1,105,091	1,143,995	202,912	167,814	161,183	201,687	1,469,186	1,513,496
CHANGES IN INVESTMENT PORTFOLIO:								
Investments, beginning of the year	$ 1,145,315	898,041	167,801	112,034	201,448	192,240	1,514,564	1,202,405
Accretion of discounts	45,013	28,560	8,166	3,095	9,535	6,040	62,714	37,715
Investments purchased	6,333,484	6,365,600	776,988	802,998	1,168,722	1,042,816	8,279,194	8,311,597
Net realized loss on investments sold	—	—	(1,106)	(125)	(2,255)	(1,345)	(3,361)	(1,470)
	7,523,812	7,292,201	951,849	918,002	1,377,450	1,239,751	9,853,111	9,550,157
Proceeds on investments matured or sold	(6,418,592)	(6,146,886)	(748,941)	(750,201)	(1,216,252)	(1,038,303)	(8,383,785)	(8,035,593)
Investments, end of the year	$ 1,105,220	1,145,315	202,908	167,801	161,198	201,448	1,469,326	1,514,564

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDING DECEMBER 31, 2006 AND 2005

1. Significant accounting policies

Basis of presentation

The Pooled Investment Funds are established by and operate under Section 13.1 of the *Municipal Finance Authority Act* (the "Act"). Three funds are maintained:

a) Money Market Fund which commenced operations on May 1, 1989;

b) Intermediate Fund which commenced operations on March 25, 1994; and

c) Bond Fund which commenced operations on May 10, 1989.

These funds are authorized to issue an unlimited number of units, each of which represents an equal undivided interest in the net assets of the respective funds pro rata with all other units from time to time issued and outstanding. Units are issued or redeemed at $1,000 per unit.

The financial statements have been prepared by management in accordance with the following significant accounting policies that are generally accepted in the investment industry

MONEY MARKET FUND

a) Investments are carried at cost, adjusted for amortization of premiums and accretion of discounts on an effective yield basis, which approximates market value.

b) Interest income is recognized as earned.

c) Management fees are accrued daily at the rate of 3/20 of 1 percent per annum of the net assets of the fund and are paid monthly to the Operating Fund of the Authority.

d) Net earnings from operations are distributed to unitholders daily as additional units of the fund.

INTERMEDIATE FUND/BOND FUND

a) Investments are carried at market values which are determined as follows:

- Bonds and debentures – at the quoted mid-market value.
- Treasury bills, short-term notes, etc. – at amortized cost which approximates market value for the Bond Fund and at mid-market value for the Intermediate Fund.

b) Investment transactions are accounted for on the trade date and gains/losses from such transactions are calculated on an average-cost basis.

c) Interest income is recognized as earned.

d) Management fees are accrued weekly and at month-end at the rate of 1/5 of 1 percent per annum of the net assets of the fund and are paid monthly to the Operating Fund of the Authority.

e) Net earnings from operations are distributed to unitholders weekly and at month-end as additional units of the fund.

f) Accretion of discounts and premiums are amortized on a straight-line basis over the term of the investment.

(SCHEDULE 1)

POOLED INVESTMENTS

MONEY MARKET FUND–SCHEDULE OF INVESTMENTS

DECEMBER 31, 2006

THOUSANDS OF DOLLARS		MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
SHORT-TERM INVESTMENTS					
Treasury Bills					
	Canada Treasury Bill	June 28, 2007	65,000	63,704	
	Canada Treasury Bill	April 5, 2007	130,650	129,260	
	Canada Treasury Bill	May 3, 2007	22,500	22,190	
	Canada Treasury Bill	May 31, 2007	64,600	63,510	
	Province of Nova Scotia Treasury Bill	February 15, 2007	30,000	29,846	
			312,750	308,510	27.91%
Bankers' Acceptance					
	Dresdner Acceptance - Bank	January 24, 2007	17,750	17,702	
			17,750	17,702	1.60%
Discount Commercial Paper					
	Alp Short Funding Trust	March 5, 2007	18,000	17,867	
	Canoe Commercial Corporation	January 22, 2007	37,000	36,909	
	City Group Finance Canada Ltd.	March 14, 2007	4,000	3,968	
	Cloverie Receivable Trust	January 19, 2007	7,000	6,985	
	Cloverie Receivable Trust	February 14, 2007	5,250	5,223	
	Cloverie Receivable Trust	March 2, 2007	23,000	22,838	
	Cloverie Receivable Trust	March 29, 2007	12,500	12,372	
	Ironridge Inc.	January 17, 2007	10,500	10,480	
	Ironridge Inc.	January 19, 2007	3,825	3,817	
	Ironridge Inc.	March 28, 2007	15,000	14,849	
	Kinlaris Corp.	January 25, 2007	15,000	14,958	
	Kitsilano LDP	February 2, 2007	14,700	14,647	
	Kitsilano LDP	March 26, 2007	10,500	10,397	
	Kitsilano LDP	March 27, 2007	22,425	22,202	
	Kinsing International	March 29, 2007	7,300	7,231	
	GE Canada	January 26, 2007	6,000	5,982	
	GE Capital Canada FDG	January 19, 2007	12,000	11,975	
	GE Capital Canada FDG	January 30, 2007	9,500	9,468	
	GE Capital Canada FDG	February 27, 2007	19,000	18,864	
	HSBC Bank Canada	March 30, 2007	12,750	12,619	
	Key Nova Scotia	March 12, 2007	5,000	4,959	
	King Street Funding Trust	March 5, 2007	13,050	12,964	
	Manulife Bank of Canada	March 9, 2007	10,000	14,568	
	Mas Recovery	February 15, 2007	5,000	4,974	
	Mas Recovery	March 6, 2007	22,500	22,331	
	Merit Trust	February 26, 2007	12,100	12,018	
	Merit Trust	March 22, 2007	12,000	11,897	
	Maple NHA Trust	January 24, 2007	10,000	9,972	
	Maple NHA Trust	March 1, 2007	10,000	9,925	
	Matrix Trust 96	February 27, 2007	17,500	17,383	
	Mccain Finance I Canada Ltd.	March 21, 2007	3,000	2,972	
	Mccain Finance I Canada Ltd.	January 17, 2007	11,000	10,979	
	Mccain Finance I Canada Ltd.	January 23, 2007	7,250	7,231	
	Mccain Finance I Canada Ltd.	February 26, 2007	2,300	2,286	
	Mccain Finance I Canada Ltd.	February 2, 2007	6,750	6,675	
	Performance Trust	February 11, 2007	40,000	39,794	
	Performance Trust	February 5, 2007	14,000	13,940	
	Pure Trust	January 26, 2007	13,600	13,560	
	Safe Trust	January 19, 2007	5,300	4,969	
	Safe Trust	February 26, 2007	25,000	24,836	
	Sonet Trust	February 26, 2007	19,900	19,769	
	Storm King Funding Trust	February 1, 2007	7,525	7,498	
	Storm King Funding Trust	February 15, 2007	3,000	2,984	
	Storm King Funding Trust	March 14, 2007	30,500	30,745	
	Stored Trust	February 9, 2007	9,500	9,470	
	Stored Trust	March 13, 2007	20,950	20,776	

	Zeus Receivable Trust	February 20, 2007	8,000	7,953		
	Zeus Receivable Trust	March 2, 2007	9,200	9,135		
	Zeus Receivable Trust	March 14, 2007	14,000	13,882		
	Vancouver City Savings Credit	January 26, 2007	7,000	6,979		
	Vancouver City Savings Credit	January 31, 2007	4,750	4,733		
	Vancouver City Savings Credit	February 13, 2007	3,000	2,985		
	Vancouver City Savings Credit	February 8, 2007	6,250	6,222		
	Vancouver City Savings Credit	February 20, 2007	2,500	2,485		
	Vancouver City Savings Credit	March 23, 2007	8,000	7,924		
	Wells Fargo Financial Canada Corporation	January 25, 2007	25,680	25,608		
	Wells Fargo Financial Canada Corporation	March 30, 2007	11,250	11,134		
			742,605	738,044	66.78%	
Total Short-term Investments			1,073,105	1,064,256		96.29%
CORPORATE BONDS						
	Vancouver International Airport Authority	November 14, 2007	12,000	12,069		
	CHN Capital Canada Receivable Trust	May 15, 2007	28,750	28,895		
			40,750	40,964		3.71%
Total Investments Portfolio			1,113,855	1,105,220		100.00%

(SCHEDULE 2)

POOLED INVESTMENTS

INTERMEDIATE FUND–SCHEDULE OF INVESTMENTS

DECEMBER 31, 2006

THOUSANDS OF DOLLARS		MATURITY DATE	PAR	MARKET VALUE		% OF TOTAL
SHORT-TERM INVESTMENTS						
Treasury Bills						
	Canada Treasury Bill	November 1, 2007	63,600	61,455		
	Canada Treasury Bill	December 27, 2007	112,430	107,985		
Total Short-term Investments			176,030	169,440		83.50%
CANADIAN BONDS						
Federal Bonds						
	Government of Canada	June 1, 2007	7,900	7,883		
	Government of Canada	June 1, 2008	25	25		
			7,925	7,908	3.90%	
Corporate Bonds						
	Bell Mobility Cellular Inc.	January 8, 2007	6,850	7,095		
	Enbridge Inc.	January 4, 2007	6,970	7,164		
	Household Financial Corporation Ltd.	June 1, 2007	4,920	4,986		
	Royal Bank of Canada	June 4, 2012	4,800	4,871		
	Telus Communications Inc.	February 1, 2007	1,400	1,444		
			24,940	25,560	12.60%	
Total Canadian Bonds			32,865	33,468		16.50%
Total Investments Portfolio			**208,895**	**202,908**		**100.00%**

(SCHEDULE 3)

POOLED INVESTMENTS

BOND FUND–SCHEDULE OF INVESTMENTS

DECEMBER 31, 2006

THOUSANDS OF DOLLARS		MATUIRY DATE	PAR	MARKET VALUE	% OF TOTAL
SHORT-TERM INVESTMENTS					
Treasury Bills					
	Canada Treasury Bill	February 8, 2007	700	697	
	Canada Treasury Bill	January 3, 2007	550	550	
			1,250	1,247	0.77%
Medium-term Notes					
	Bell Canada	January 18, 2008	550	575	
	Manitoba Telecom Services Inc.	June 2, 2008	1,000	1,022	
	National Bank of Canada	November 2, 2016	550	554	
	Talisman Energy Inc.	September 16, 2009	666	743	
	Telus Communications Inc.	February 1, 2007	1,500	1,548	
			4,266	4,442	2.76%
Total Short-term Investments			5,516	5,689	3.53%
CANADIAN BONDS					
Federal Bonds					
	Government of Canada	September 1, 2009	100	102	
	Government of Canada	June 1, 2013	230	247	
			330	349	0.22%
Corporate Bonds					
	Altalink Investment LP	November 21, 2012	375	378	
	Alberta Treasury Branches	December 1, 2011	1,530	1,533	
	Alberta Municipal Financing	September 1, 2011	7,470	8,102	
	Bear Stearns Company Inc.	November 12, 2009	2,250	2,268	
	Bear Stearns Company Inc.	January 12, 2011	2,000	2,030	
	Brascan Power Corporation	December 16, 2009	1,500	1,509	
	Calloway Real Estate Investment Trust	September 22, 2010	1,475	1,482	
	Canada Housing Trust	March 15, 2009	1,730	1,728	
	Canada Housing Trust	September 15, 2011	63,615	65,819	
	Capital Desjardins Inc.	March 17, 2014	425	425	
	Caterpillar Financial Services Limited	June 1, 2007	150	152	
	Credit Union Central of BC*	December 21, 2016	500	499	
	Falcon Trust	January 15, 2011	3,139	3,182	
	Ford Floorplan Auto	November 15, 2009	1,050	1,060	
	Ford Floorplan Auto	November 15, 2008	425	426	
	General Motors Acceptance Corp.	February 16, 2007	500	509	
	Goldman Sachs Group Inc.	June 1, 2011	1,750	1,782	
	Greater Toronto Airport Authority	December 3, 2007	2,000	2,038	
	Household Financial Corporation	July 2, 2008	2,275	2,333	
	ING Bank of Canada	December 5, 2016	350	350	
	JP Morgan Chase & Co.	September 8, 2015	3,800	3,780	
	Key Nova Scotia FDG Co.	December 14, 2009	565	563	
	Merrill Lynch Financial Assets Commercial Mortgage	April 15, 2011	575	627	
	Merrill Lynch Financial Assets Commercial Mortgage	November 12, 2033	1,150	1,245	
	Merrill Lynch Mortgage Loans Inc.	November 15, 2008	663	676	
	Merrill Lynch Mortgage Loans Inc.	July 15, 2009	1,526	1,601	
	Merrill Lynch Mortgage Loans Inc.	March 15, 2032	6,815	7,355	

	Merrill Lynch Mortgage Loans Inc	November 15, 2032	1,000	1,079		
	Metropolitan Life Global Fund	February 10, 2009	6,675	6,786		
	N-46 A-B Notes Issuer Inc	July 15, 2011	1,947	1,916		
	Pancanadian Petroleum Ltd	June 2, 2008	300	307		
	Riocan Real Estate Investment	March 24, 2010	1,150	1,172		
	Residental Funding of Canada	May 12, 2008	450	453		
	Scotia Mortgage Investment Corporation Boom	October 31, 2007	7,325	7,531		
	TD Capital Trust Securities	December 31, 2009	7,270	8,200		
	Terasen Pipelines	February 2, 2010	1,050	1,060		
	Union Gas Ltd	July 11, 2011	1,015	1,058		
	Weston (George) Ltd	February 5, 2009	600	631		
	YPG Holding Inc	April 21, 2009	1,400	1,413		
			139,785	145,098	90.01%	
Total Canadian Bonds			140,115	145,447		90.23%

MORTGAGES

CMHC Insured Mortgages						
	Penmor Mortgage # 1865-IF	June 15, 2007	23	24		
	Penmor Mortgage # 1924-2W	November 1, 2009	612	616		
	Penmor Mortgage # 1995 - U	November 15, 2008	493	494		
NHA Insured Mortgages	Penmor Loan #2341-1W	November 1, 2011	568	567		
	Penmor Loan #2372-0W	March 1, 2007	556	560		
	Penmor Loan #2381-0W	April 1, 2007	557	561		
	Penmor Loan #2516-0W	May 1, 2008	426	433		
	Penmor Loan #2544-0W	September 1, 2008	839	846		
	Penmor Loan #2563-0F	December 1, 2008	417	420		
	Penmor Loan #2699-0F	August 15, 2009	1,520	1,535		
	Penmor Loan #2787-0F	February 1, 2010	960	960		
	Penmor Loan #2793-0F	March 1, 2010	750	751		
	Penmor Loan #2331-1W	December 1, 2010	1,283	1,304		
	Penmor Loan #3133-0M	June 1, 2012	979	991		
Total Mortgages			9,983	10,052		6.24%
Total Investments Portfolio			**155,614**	**161,198**		**100.00%**

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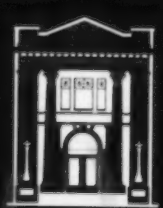

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